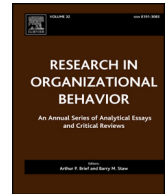




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## Toward a theory of business

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### ABSTRACT

What is the purpose of business? While most agree that business minimally involves the creation of value, a blurred double image of value haunts our discussion of purpose. The image of what counts as value for a single firm is laid atop an image of what counts as value for business in general. These two images cannot match. Indeed, the resulting conceptual blurriness is a classic example of a composition fallacy. We should never mistake the properties of a part for the properties of the whole. A theory of the firm is ill equipped to handle the many expectations we hold for business practice. As such, we seek to establish the beginnings of a theory of business, one that is both empirical and normative. Offering four central propositions about the purpose, accountability, control and success of business, we close with a consideration of several important theoretical issues and practical opportunities that await us in the years ahead.

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### Introduction

“Law is to justice, as medicine is to health, as business is to \_\_\_\_.”

We have asked business students and colleagues alike to fill in the blank above. The first reaction is always one of awkward silence. People are surprised that the answer does not roll off the lips. There is always a sense in the room that we should know the answer and yet, we do not. Then the answers come. A cluster of people will focus on profit, money, and wealth. Others, more expansively, will talk about value creation and prosperity. Still others will focus on the likes of coordination, exchange, production, and innovation. Some will take a decidedly macro perspective and speak about commerce, the economy, collective well-being, and society. And finally, some will shift gears and focus not on wealth but greed, not prosperity but power, not

well-being but oppression. One colleague in a recent Academy of Management symposium memorably said “our fucked-up global economy.” This exercise points out three challenges when we think about the nature of business. One is that we grapple with its purpose. The second is that we have a hard time disentangling our thinking about a single business enterprise from business more broadly, an agglomeration of those enterprises in their institutional and historical context. And finally, we know that business may not be an unalloyed good. All of these tensions are on display when we appraise our thinking about the place of business in society.<sup>1</sup>

What is the purpose of business? While most agree that the purpose of business minimally involves the creation of value, today’s discussion is haunted by a blurred double image of value. The image of what counts as value for a single firm is laid atop an image of what counts as value for

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<sup>1</sup> As we consider the purpose of business in light of our understanding of medicine and law, we will sidestep the thorny issue of whether or not the practice of business constitutes a profession. Yes or no, the question of purpose still matters.

business in general. We will argue that these two images cannot match and that the resulting blurriness is a classic example of the composition fallacy. Enumerating persistent expectations and concerns about business practice, we believe that a theory of the firm is ill equipped to handle them. Working from a set of definitions that give precision to such everyday concepts as value, dignity and business success, our goal is to develop a theory with both normative and empirical relevance. Since business works both in society and for society (Walsh, Meyer, & Schoonhoven, 2006), the theory must include both empirical and normative elements. With this work as a foundation, we then offer four central propositions about the purpose, accountability, control, and success of business. We will close with a consideration of several questions, issues and opportunities that we are likely to face in the years ahead. While this effort is admittedly preliminary, we do hold some criteria for its success. We hope that our ideas both align with known facts about business practice and with deep, widely held intuitions about values. Beyond that, we hope that others will be moved to build upon these ideas in the coming years.

### *Business matters*

To begin, we want to assert that business matters.<sup>2</sup> While economic historians can debate the Industrial Revolution's legacy [see Allen's (2008) review of Clark (2007), for example], some facts are clear. Perhaps most fundamentally, Riley (2001) observed that human life expectancy more than doubled in the past two hundred years (moving from about 30 to 65 years). He called that the "crowning achievement of the modern era" (p. 1). To be sure, the modern era is marked by all manner of life-saving and life-enhancing achievements. Take medicine, engineering, communications, and agriculture. Would we have CT scanners, automobiles, smartphones, and drought resistant seeds without business to develop the ideas, create the products, and distribute them worldwide? Of course not. Launching a new social progress initiative, Porter and Stern (2015) looked at the cross-sectional relationship between social progress (assessing what they called basic human needs, foundations of wellbeing, and opportunity) and economic growth (looking at GDP per capita). Gathering data from 133 nations, they found a correlation of 0.78. Economic and business activity can certainly make the world a better place.<sup>3</sup>

<sup>2</sup> As we point to the fruits of business, we acknowledge debates over which economic system – socialism, capitalism, or some yet-to-be imagined third system – is best equipped to support business activity. That, however, is its own complex question (c.f., Kornai, 2000; Schumpeter, 1942/2008), one that we do not attempt to address here.

<sup>3</sup> As we say this, we know that the idea of "a better place" is open to discussion. Some raise concerns about this new longevity phenomenon, one where we live longer, die slower, and die differently than our ancestors (Erickson, 2013, p. 6). Longevity certainly presents its challenges (Erickson, 2013; Fishman, 2010; Gawande, 2014). And yes, we know that CT scans expose us to radiation, automobiles pollute, smart phones enable cyberbullying, and genetically modified foods concern many. Still, we suspect that most would rather face problems attendant to "progress" than not enjoy the benefits at all.

That said we want more and less from business these days. Tellingly, Margolis and Walsh (2003, p. 268) began their paper entitled *Misery Loves Companies*, with the words "The world cries out for repair." With firms' wealth and capabilities so clearly on display as they reach into factor and product markets the world over, Margolis and Walsh observed that they are a ready target for appeal.<sup>4</sup> Beyond providing quality goods and services at a fair price, as well as local employment and investor wealth, firms are also asked to sponsor all manners of public health and community development initiatives. Kofi Annan's (2001) plea to the US Chamber of Commerce for HIV/AIDS help is an iconic example of such an appeal: "Business is used to acting decisively and quickly. The same cannot always be said of the community of sovereign States. We need your help—right now." Case Western Reserve University's David Cooperrider created a Center at Case named "Business as an Agent of World Benefit." That name captures the hopes of so many who look to the corporation for help.

On the other hand, many fear the firm. We have been witness to what can only be called dreadful corporate behavior over the past three decades (Greve, Palmer, & Ponzer, 2010). Business legitimacy, and the social trust that serves as its foundation, has been damaged. The 1981 Savings and Loan crisis shook business confidence for a time. The business scandals of 2001 and 2002, however, precipitated more than a decade-long loss of confidence in big business. The misconduct at Enron, Tyco, and WorldCom launched the trend. Such misconduct brought us the Sarbanes–Oxley Act of 2002 and turned their disgraced CEOs – Ken Lay, Dennis Kozlowski, and Bernie Ebbers – into household names (Coates, 2007). WorldCom's July 2002 bankruptcy was the world's largest at the time (\$103.9B). These three 2001–2002 scandals, however, were just the most notorious. Looking at the data on earning restatements in the 1990–2004 time period, Coffee (2005, p. 201) concluded that there was "a hyperbolic rate of increase around the turn of the millennium." That is when public confidence in business really started to ebb.

The concern born of the turn-of-the-century scandals was fueled anew in September 2008 with the collapse of Lehman Brothers and Washington Mutual. With asset values of \$691B and \$327.9B, respectively, each dwarfed WorldCom's fall and became the nation's largest and second largest bankruptcies in history (*The 10 Largest US Bankruptcies*, 2009). As the financial crisis worsened, the US government stood behind many more troubled firms and offered billions of dollars to prevent a total economic collapse. Accounting for all of the money is a difficult task but we know, for example, that JPMorgan received \$29B from the U.S. government to buy the troubled Bear Stearns, AIG received at least \$85B to stay solvent, and all manner of others (including General Motors) received portions of the \$700B that funded the Troubled Asset Relief Program (Block, 2010).

<sup>4</sup> A factor market is sometimes called an input market. It refers to the market where resources and capabilities (e.g., historically, land, labor and capital) necessary to produce a good or service are bought and sold.

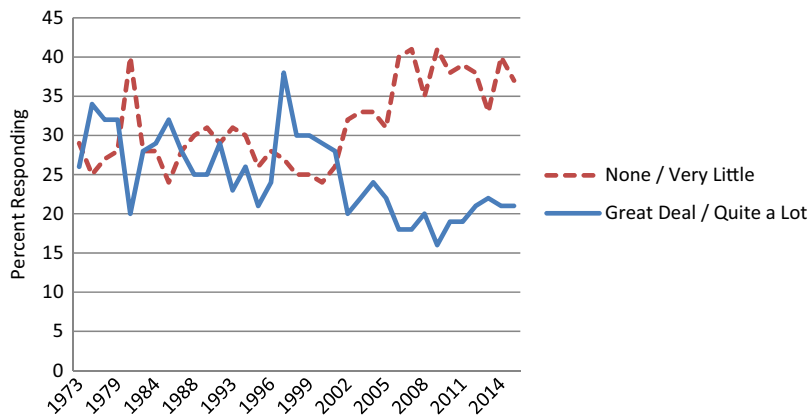


Fig. 1. Confidence in big business, 1973–2015.

The Gallup organization has queried the US public about its confidence in society's institutions since 1973. Fig. 1 reveals the responses they have received over those 42 years (Gallup, 2015). It pictures the contagious loss of business legitimacy that we have witnessed over the past decade or so. Legitimacy has fallen in tandem with rising expectations – society expects more from business these days than simply creating wealth. For example, a recent survey tells us that just 7% of the US population believes that business should only make money for its shareholders (Cone Communications, 2013).

And so, we are torn. Taken as a whole, we hold out hope for business to be an agent of world benefit but we are wary of any single firm's activities. While we have seen efforts to better control the firm's worst impulses (e.g., the Sarbanes–Oxley Act of 2002), we have also seen many more efforts to encourage what might be called pro-social firm behavior. For example, created by the United Nations in 2000, the Global Compact is the largest voluntary responsibility code in the world. More than 12,000 companies in 170 countries have now endorsed it. The Compact's ten principles eschew corruption and promote human rights, labor and environmental standards. The Aspen Institute, especially with its Business and Society Program, works tirelessly to encourage business to act as force for social good. Its Purpose of the Corporation initiative is its latest attempt to direct corporate activity for the well-being of society (Keller-Fay Group, 2014). Respondents to *Fortune* magazine's Most Admired survey annually assess firms on how they handle their responsibility to the community and environment. Voluntary standard setting organizations like the International Organization for Standardization (with its ISO 14000 series on environmental management) and AccountAbility (with its AA100 sustainability, assurance and stakeholder engagement standards) work to help firms do no harm.

### Theory and practice in a world of wary expectation

With this kind of normative pressure on firms to serve as agents of world benefit, it is no surprise to see firms respond with a variety of what might be called corporate social responsibility or corporate citizenship initiatives. Research captures the effects of such initiatives on

attracting and retaining high quality employees (Backhaus, Stone, & Heiner, 2002; Jones, Willness, & Madey, 2014), cause marketing initiatives on attracting and retaining a loyal customer base (Batra, Ahuvia, & Bagozzi, 2012; Varadarajan & Menon, 1988), socially responsible investment practices on attracting impact investors (Dhaliwal, Li, Tsang, & Yang, 2011; SRI Basics, 2015), and microfinance initiatives' ability to provide capital to heretofore ignored entrepreneurs (Cull, Demirgüç-Kunt, & Morduch, 2009). In addition, scholars examine attention to human rights (Spar, 1998) and the environment (Lee & Klassen, 2008; Sarkis, Zhu, & Lai, 2011) in supply chains. Quite expansively, Porter and Kramer (2006, 2011) encouraged firms to scour their value chain for opportunities to serve both society and their bottom line. Perhaps not surprisingly, PriceWaterhouseCoopers' (2014) recent CEO survey tells us that 68% of all CEOs believe that the purpose of business is to balance the interests of all stakeholders. Entirely new legal entities have recently emerged to serve this kind of ambition. The low-profit limited liability corporation and the benefit corporation, for example, are innovative attempts to create companies that pursue profit and social good simultaneously (Reiser, 2011). Change is in the air.

Theoretical work tries to keep pace with this innovation. Attentive to the yearning for social benefit and to the many innovations themselves, we see efforts to understand if not guide new corporate behavior. Looking inside the firm, the Positive Organizational Scholarship (POS) movement tries to articulate a new management paradigm, one based on compassion, flourishing, and the inspiration of positive deviance rather than one based on compliance, control, and the mitigation of negative deviance (Cameron & Spreitzer, 2013). More broadly, alone (Prahalad, 2005; Hart, 2005) and together (Prahalad & Hart, 2002), Prahalad and Stuart Hart tried to articulate a new framework for business behavior, one that asks us to look to the poorest among us for both new product and service ideas and markets (see Kolk, Rivera-Santos, & Rufin, 2014 for a current review). Santos (2012) offered us a positive theory of social entrepreneurship. And of course, stakeholder theory has been with us for over thirty years (Freeman, 1984). It has changed form and focus over time but on balance, it offers the promise of a new theory of the firm, one that might help deliver more business benefit to

multiple stakeholders (Freeman, Harrison, Wicks, Parmar, & DeColle, 2010). Pursuing that promise, Jones and Felps (2013a, 2013b) recently derived a new objective function for corporations, stakeholder happiness.

But these largely mid-range theories are not without their critics. Speaking to the POS movement, Fineman (2006) argued that the idea of positiveness is culturally restrictive and not without a dark side. Hackman (2009) worried about a lack of construct validity for many of the movement's key concepts. Karnani wonders if the fortune at the bottom of the pyramid is an alluring illusion, a mirage (Karnani, 2007). He suggested that the poor would be better served if business, government, and civil society worked together to create job opportunities and provide the public services that are so necessary to live a productive and dignified life (Karnani, 2011a). While Santos' (2012) ideas are too new to garner criticism, we will see if they satisfy those who wonder just what constitutes social entrepreneurship (Dacin et al., 2012). High aspirations notwithstanding, Jones and Felps (2013b, p. 268) admitted that their ideas might only apply for large publicly traded firms in developed economies that face little competition (one wonders how such firms will co-exist with smaller entrepreneurial firms that focus on shareholder wealth creation and thrive in competitive markets). Finally we all know that stakeholder theory in broad form has been a target of criticism for years. Jensen (2001, p. 9), for example argued:

...stakeholder theory should not be viewed as a legitimate contender to value maximization because it fails to provide a complete specification of the corporate purpose or objective function. ...without the clarity of mission provided by a single-valued objective function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency, and perhaps even competitive failure.

These theoretical skirmishes are really a part of a larger battle about the purpose of the firm. It is a battle fought for decades, if not centuries (Avi-Yonah, 2005). The modern debate began in the pages of the *Harvard Law Review*. Berle (1931, p. 1049), worried about managers' power and their unfettered control of the corporation (Bratton & Wachter, 2008), averred that "the powers granted to the corporation or the management of the corporation – are necessary and at all times exercisable only for the rateable benefit of all the shareholders as their interest appears." As a matter of theoretical parsimony and practical necessity, the interests of the firm's equity investors needed to be affirmed and protected from those looking to run off with their money. In clear sympathy with the need for investor protection, Dodd (1932, p. 1148) nevertheless asserted that the business corporation "has a social service as well as profit-making function." And so began the great modern debate about the purpose of the corporation. Those steeped in neo-classical economics tend to side with Berle. Call them contractarians, shareholder-primacy theorists, or those in the firm-as-property camp, they clearly see the firm as accountable to the firm's equity holders. If asked about the firm's social purpose, they point to the title of Milton Friedman's (1970) – now famous essay in the

*New York Times* – "The social responsibility of business is to increase its profits." Asked and answered.

But the question was not answered. Others, call them communitarians, stakeholder theorists, or those in the firm-as-entity camp, see the firm as broadly accountable to society.<sup>5</sup> Calling to mind the charters that first served as a basis for – and constraint on – corporate activity, Nader, Green, and Seligman's (1976) book, *Taming the Giant Corporation*, chronicled the social and economic cost attendant to these new large and powerful corporations. They called for a radical solution, a federal chartering system, to ensure that society is well served by corporate activity. Right or wrong (Walsh, 2005), many saw the publication of Freeman's (1984) stakeholder theory as a direct antidote to the likes of Friedman (1970). Still, Freeman (1994, p. 413) distanced himself from radical rejections of stockholder-centric approaches. He knew that his ideas were preliminary:

The temptation has been for a long time to depict the stakeholder concept as a kind of rallying cry against the stockholder theory. Armed with stakeholder maps on our shields and banners, we have marched forth to browbeat the infidels, mostly economists and finance theorists ... and show them that stakeholder theory is "better" than stockholder theory. [He confessed,] There is no such thing as the stakeholder theory. ...it is a genre of stories about how we could live.

The challenges of globalization and the loss of legitimacy noted above rekindled the debate at the turn of the century (Bradley, Schipani, Sundaram, & Walsh, 1999). Sundaram and Inkpen (2004) clashed with Freeman, Wicks, & Parmar (2004), Siegel (2009) sparred with Marcus and Fremeth (2009), and Karnani (2011b) debated with Rivoli and Waddock (2011) about the purpose, accountability, and control of the firm. The neoclassical theory of the firm is clearly under strain (Stout, 2012). It appears to be incapable of harboring our dreams for business practice that promotes social harmony, environmental stewardship and at the same time, economic prosperity.

### A beleaguered straw man

Our extant understanding of business conduct is drawn largely from economics, specifically what is known as neo-classical economics. The economists offer us a theory of the firm, telling us why the firm exists and how commerce in a world of firms differs from commerce in a world of market exchange. Known broadly as the neo-classical theory of the firm, the power and reach of this work is impressive. Indeed, William Allen, former Chancellor of the Delaware Court of Chancery, once remarked, "One of the marks of a truly dominant intellectual paradigm is the difficulty

<sup>5</sup> The stakeholder/shareholder (Freeman et al., 2010), communitarian/contractarian (Daniels, 1993), and entity/property (Allen, 1992) language differences reflect paradigmatic differences. Management theorists prefer the stakeholder/shareholder language, while legal scholars use the other terms. Bradley et al. (1999, p. 44) offer a helpful table that summarizes the differences between the two camps.

people have in even imagining an alternative view” (Allen, 1993, p. 1401). Alternative theories have had a hard time gaining traction.

The “neo-classical” theory of the firm is really a bundle of theories, all loosely connected by their utilization of concepts drawn from this view of economics. Seeing individuals as primarily self-interested economic agents, the theories are all grounded in notions of contractual freedom, with an emphasis on prices and outputs constrained by demand. The striking success of the neo-classical approach to the firm owes much to the genius of integrating our understanding of firms with the established concepts of neo-classical economics. Importantly, they give us a theoretical account for why firms exist in a market economy. Moreover, these theories allow internal transactions to be related to market transactions, firm structures (i.e., hierarchy) to be related to cost constraints in the broader markets, and concepts such as free-exchange and contracting to be adjusted in order to understand firm behavior. Not all theories, however, make the same assumptions or have the same aims. Gibbons (2005, p. 239) offers a typology that effectively distinguishes among different theories of the firm depending on their foci: rent-seeking, property rights, incentive-system, or adaptation (see especially pp. 200–201).

The literature utilizing the neo-classical theories of the firm surged after Ronald Coase (1937), the 1991 Nobel Laureate, published his seminal paper entitled “The Nature of the Firm.” While the work in this area is expansive, one stream examines the boundaries of the firm vis-à-vis the market [c.f., Williamson (1985) and his work on transaction cost economics] and another on the challenge of organizing and controlling work in the firm [c.f., Jensen and Meckling (1976) and their work on agency theory]. These ideas have drawn extensive scholarly attention over the years [see Dalton, Hitt, Certo, & Dalton (2007), Shapiro (2005), and Shleifer and Vishny (1997) for reviews of agency theory and Carter and Hodgson (2006), David and Han (2004), Macher and Richman (2008), and Shelanski and Klein (1995) for reviews of transaction cost economics]. Their conceptions of agency, transaction costs, hierarchies, hold-up problems, shirking, asset specificity, and complete and incomplete contracts offer compelling accounts of many aspects of firm behavior. Our understanding of corporate governance has especially benefitted from this work. And yet, fundamental questions about the purpose and accountability of the firm are still contested. The concerns are of two types: There are what might be called proximate concerns, those born of a close look at the theories’ assumptions and central constructs; and then there are those that might be called distal concerns. They come into view when we look beyond the theories themselves to consider how well they actually capture and inform organizational life and in particular, how well society benefits from their embrace. We will consider each in turn.

#### *Proximate concerns*

The neo-classical theory of the firm has been under scrutiny for decades. Its salience and very success no doubt elevated its status as a high-value target for academic

critics. Many of them approach the theory on its own terms, granting some of its major assumptions and challenging others. Davis (2005), for example, questions whether shareholders truly “own” the corporation. Some transfer well-known concerns about neo-classical economics to the theory of the firm. Concerns about the absence of perfect information, methodological individualism (i.e., the idea that social phenomena can best be understood as a function of individual intent and action), and the oversimplification of complex social behavior, for example, are all raised in this domain as well (Granovetter, 1985; Perrow, 1986a, 1986b). Others criticize the practical implications of the theory. Calling the theory’s prescriptions “wrong” and “dangerous,” Ghoshal and Moran (1996, p. 13) argued that managers who unwittingly implement these ideas could do more harm than good (see Ghoshal, 2005 for an elaboration of that accusation). Ferraro, Pfeffer, & Sutton (2005) warned us that such theories could become self-fulfilling. Still others worry about the double-sided epistemic face of the theory. They worry that it can be deployed – again unwittingly – as either a positive or a normative behavioral account. The ensuing confusion does us little good (Coff, 1999; Donaldson, 2012; Kim & Mahoney, 2010; Zingales, 2000). To be sure, all theories have their limitations. Problems will draw earnest attempts to fix them; the theory will be refined in time. Even still, one can wonder about the ultimate utility of the ideas comprising the neo-classical theory. One can wonder how well these unalloyed ideas, perhaps even with their coming refinements, serve society.

#### *Distal concerns*

These concerns are audible and paradoxically, sometimes inaudible. The noisy protests, attendant to the aggressive pursuit of competitive advantage and profit, are unmistakable. Taibbi (2009), for example, began his critique of Wall Street’s role in the recent financial crisis with these now infamous words:

The first thing you need to know about Goldman Sachs is that it’s everywhere. The world’s most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.

The toll that our recent economic problems took on the lives of everyday Americans is well known (Grusky, Western, & Wime, 2011). The business misbehavior that so fueled the crisis of confidence captured by the Gallup organization is well chronicled in the media. Other concerns, perhaps endemic to everyday business decision making, may not always claim a front page headline. Newsworthy just the same, they often constitute what are known theoretically as negative externalities.

With profit the remainder as we subtract costs from revenue, a firm naturally wants to minimize its costs. Problems arise when firms pass their costs on to others. Observers of contemporary business are quite concerned about externalities. The Organization for Economic Cooperation and Development (2014) offers a succinct definition of the phenomenon:

Externalities refers to situations when the effect of production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged for the goods and services being provided.

The most obvious example may be the pollution that can accompany manufacturing. While the consumers of a company's goods may not pay for the cost of this pollution, society certainly pays for it with a diminished quality of life (Brandt et al., 2013). Other examples are legion. The tobacco industry takes the lives of many of its customers (Pierce, Gilpin, & Choi, 1999). In doing so, it wreaks havoc with their families and imposes a public health burden on the rest of us. The food industry contributes to childhood obesity and a near epidemic of Type II diabetes (Lewin, Lindstrom, & Nestle, 2006). The deleterious effects of the gambling industry on the lives of its patrons and neighbors are palpable. Grinols and Mustard (2001), for example, identified ten social costs that follow the opening of a casino. They tracked, for example, how the presence of a casino can affect the perhaps obvious cost of an increase in criminal activity, as well as ones that may not be so obvious. For example, they called attention to what they called "abused dollars." Gamblers borrow this (soon to be lost) money from family and friends under false pretences. It is important to note that negative externalities can be borne not just by today's citizens but by future generations as well (World Commission on Environment and Development, 1987).

While scandal and negative externalities sometimes garner protest, we are struck by the silence that greets so much of this news. To be sure, the financial scandals of the early 2000s contributed to the passage of the Sarbanes–Oxley Act. Scandal can fuel reform. Still, we have become desensitized to egregious firm behavior. Consider the past five years. In 2010, we learned that a Dutch court found Trafigura guilty of illegally dumping toxic waste. Instead of paying to process the waste in the Netherlands, the ship sailed to the Ivory Coast and dumped it there, sickening over 100,000 people (Trafigura found guilty of exporting toxic waste, 2010).<sup>6</sup> Already under fire for hacking the phones of celebrities and politicians in search of tabloid gossip, we learned in 2011 that The News Corporation crossed a line into the world of the utterly despicable. In search of the sensational story, they hacked into the phones of terrorist bombing victims, deceased Iraqi soldiers, and even a murdered schoolgirl (Watson & Hickman, 2013). In 2012, HSBC paid a \$1.9B fine after being accused of laundering money for Mexican drug traffickers and such countries as Burma, Iran, Libya, and Sudan (McCoy, 2012). We learned the next year (on April 24, 2013) that the Rana Plaza garment factory building collapsed in Dhaka, Bangladesh. More than 1100 people perished (Burke, 2013). Dov Charney, the founder and long-time CEO of American Apparel, was finally deposed in

2014 after presiding over what was euphemistically called "a sexually charged workplace" (Berfield, 2014). And finally, 2015 bore witness to two scandals of massive proportions. First, we first learned that the CEO and five members of the board of directors of Petrobras, the largest company in Brazil, were forced to resign after suffering \$33B in losses due to corruption and financial mismanagement. The scandal even found its way to the office of the country's president (Iraheta, 2015). Second, we learned that Volkswagen cynically skirted emissions laws on 11 million vehicles in the US, defrauding its customers and exposing the world to dangerous levels of toxic pollutants, all in its quest to become the world's largest automaker (Hakim et al., 2015).

We hear such news, see it as a tragedy, and then continue to live as if it never happened. Our seeming acquiescence in the face of such tragedy is itself a tragedy. Indeed, some readers' minds may even wander as they read these words, muttering to themselves, "Oh no, not another business ethics paper that tries to grab our attention with horrific tales of business misbehavior and malfeasance..." We know that the children who play violent video games become desensitized to the violence, demonstrating less empathy and prosocial behavior in their lives (Anderson et al., 2010). It may very well be that the persistent exposure to corporate wrongdoing and to businesses' negative externalities simply desensitizes us to these problems. Yes, we want more from business. And yes, we are drawn to initiatives that promise world benefit. However, seeking broad theoretical guidance and legitimacy for more prosocial firm behavior, theorists see little choice but to challenge – again and again – the dominant neo-classical theory of the firm. Hollensbe, Wookey, Hickey, George, and Nichols' (2014) heartfelt plea for a renewed focus on corporate purpose is perhaps the most recent example. They are eager to discover "how corporate purpose and the values that drive it might best be brought together in the service of society" (p. 1228).

Sensing some futility, we are reminded of Winston Churchill's now famous words to the House of Commons on November 11, 1947: "No one pretends that democracy is perfect or all-wise. Indeed it has been said that democracy is the worst form of Government except for all those other forms that have been tried from time to time..." Channeling Churchill, one might say, "No one pretends that the neo-classical theory of the firm is perfect or all-wise. Indeed it has been said that the neo-classical theory of the firm may be the worst theory of the firm, except for all those other theories that have been tried from time to time." Indeed, for all the hearty and heartfelt criticism of contractarianism, the communitarian paradigm may not offer a positive logic to organize economic production. It may be more of a protest movement than a workable theory of economic production (Bradley et al., 1999, p. 47). Still, it may be time to give the neo-classical theory of the firm, our beleaguered straw man, a break. The solution to our theoretical problems may lie elsewhere.

On balance, the neo-classical theory of the firm may serve business leaders fairly well. The issue is that the theory was not developed to address society's interest in business activity, the source of the distal problems we

<sup>6</sup> Greenpeace detailed the charges and excoriated the company in a 231-page report entitled *The Toxic Truth* (<http://www.greenpeace.org/international/en/publications/Campaign-reports/Toxics-reports/The-Toxic-Truth/>)

identify here. While the theory's proximate concerns are real and deserve attention, the distal questions and concerns pose problems for a theory ill equipped to handle them. We do not need a theory of the firm to address these problems; we need a theory of business. We need a theory that can answer the riddle posed at the beginning of this work: "Law is to justice, as medicine is to health, as business is to \_\_\_\_?" Absent such a theory, we suffer a fallacy of composition.

### A fallacy of composition

A fallacy is a form of deceptively bad argument. A fallacy of composition occurs when one assumes that the property of a part, or of all parts, can be taken to represent the whole. Hansen (2015, p. 5), a philosopher who has written widely about fallacies, offers the following example: Every member of the investigative team is an excellent researcher. Therefore, the team is an excellent one. This inference will not hold if the team members do not work well together. There is more to an excellent team than the quality of its membership.

Such a deceptive line of reasoning can tempt false conclusions in management theory. Imagine that the purpose of a firm is to maximize its shareholders' wealth or, say, to delight its customers. We must remember that a single firm is just one part of the broad agglomeration of firms that comprise business activity, activity that sits squarely in its institutional and historical context. We should take great care before we conclude that the purpose of business is to maximize shareholder returns or to delight customers. The composition fallacy alerts us to the possibility that the attributes of a successful firm may not be the same as the attributes of successful business in general.

A closely related confusion, while not a fallacy *per se*, is the conflation of business means with business ends. Operational efficiency, for example, may be crucial to a firm's success and even to business success, but it would be a mistake to conclude that efficiency itself is any kind of ultimate firm or business goal. The temptation to do so is real but we need to be alert to the problem of goal displacement as we consider purpose, especially if that purpose is more intangible than many of the means to that end (Warner & Havens, 1968). Consider engines. At a time when the social sciences grapple with bouts of physics envy (Flyvberg, 2001), a look at the limitations of physics is instructive.

One can define a mechanical engine as a machine with moving parts that converts power into motion. There have been and are many engines: the ancient Greek (Hero) wind-wheel engine that drove an organ, the steam engine that drove locomotives, the modern internal combustion engine that is ubiquitous today, and the atomic fission engine that powers nuclear submarines. Physical theories dealing with one particular aspect of engines, namely, their ability to overcome friction and convert power into motion, have inspired more and more efficient engines. But as powerful as these ideas have been for improving efficiency, we do not fully understand what an engine really is until we relate it to its human value. Even a

supremely intelligent scientist from another galaxy would not know what an "engine" is without some theory that references its use and purpose, such as in transportation. Otherwise, it is simply a "machine with moving parts." Similarly, it is impossible to understand fully the nature of business in society by simply looking at the descriptive principles that undergird the creation of a firm in society.

Our goal here is to begin to develop a conceptually robust theory of business. Again, it will be an empirical and normative theory. Well aware of the promise of value free science – and the scorn that may befall those who bring a consideration of values to science – we are nevertheless intent on developing a normative theory. Not mincing words, Weber (1922/1968, pp. 152, 155) pointed to the peril in our path:

Science today is a 'vocation' organized in special disciplines in the service of self-clarification and knowledge of interrelated facts. It is not the gift of grace of seers and prophets dispensing sacred values and revelations, nor does it partake of the contemplation of sages and philosophers about the meaning of the universe." He went on to say, "To the person who cannot bear the fate of the times like a man, one must say: may he rather return silently, without the usual publicity build-up of renegades, but simply and plainly. The arms of the old churches are opened widely and compassionately for him.

With all respect to such a towering intellectual figure, we cannot bear the fate of our times silently. If there are sacred values that might commingle with rigorous scientific inquiry to better humanity, then we are remiss to ignore them. We cannot duck a consideration of the human value of business activity as we seek to understand it. Amartya Sen, the 1998 Noble Laureate, pointed out that "economic sense" is defined in either of two ways: one includes the achievement of a good society; the other narrowly concerns itself with business profits and rewards (Sen, 1993, p. 52). We hope to define and expand the first of these two notions, the economic sense that undergirds a good society. In the end, we hope to account for the audible and inaudible concerns we identified above. We intend to account for the intellectual disenchantment, the third party activism, and the contemporary search for new business models. As we do, we will pay close attention to fundamental intuitions about the nature of the human person and humanity.

### Theoretical foundations

#### *Definitions for a theory of business*

Language brings our world into relief. Specialized languages such as mathematics, logic, topology, and yes, economics, systemize thinking with extreme clarity. The linguistic philosopher, Ludwig Wittgenstein, compared specialized languages to new suburbs in urban areas—they are new entrants to an existing linguistic territory (Wittgenstein, 1953). As we have seen, however, the critics and defenders of the beleaguered straw man, the

neo-classical theory of the firm, often talk past one another because the specialized language of neo-classical theories has difficulty interpreting issues lying outside its scope. The strength of specialized languages is that they embody sharper tools for particular purposes. Their weakness connects to their strength, however; their acuity comes at the cost of conceptual narrowness. For example, the language of DNA and genetic biology may do a good job of explaining how a zygote becomes a human being but it does a poor job of explaining how a human being will fall in love with another, create a new zygote, and reproduce the species.

When neo-classical theories of governance are criticized for a failure to address issues outside their purview (e.g., for failing to address broad questions of sustainability), critics must borrow terms lying outside the specialized language. They are forced to borrow terminology from natural languages, using such words citizenship, stakeholder, team, and family to make their case. They are driven to frame corporations as corporate citizens, production teams, collections of stakeholders, or even families. Inevitably, their criticisms appear less sophisticated than the theories they criticize.

Neo-classical theories function reasonably well for their designed purpose. The issue is that their purpose is limited. In order to reach beyond their designed scope, we require different terms and different theories. If we want to achieve distinctive depth and clarity, we require a specialized language. The specialized language of any theory is effected through the articulation of definitions, postulates, and assumptions. From Euclidian geometry to Newtonian Physics and modern microeconomics, the crucial elements of theory are definitions. For this reason, we begin our effort to develop a theory of business by first articulating a set of basic definitions. Our aspirations are modest. We do not mean to offer the last word on a prospective theory of business. Instead, we offer a first. We invite others to assess our elementary definitions and then help us refine and extend them. The project we envision is a long-term one. Only the cooperation of a great many colleagues will ensure its success.

Any theory of business needs to focus on four key ideas. Three of these are common to the contemporary literature on corporate governance, namely, we must consider the purpose, accountability and control of business. And given that ours is to be a normative theory as well as an empirical one, we will appraise the ultimate conduct of business—we will consider the nature of business success. With these four aspirations in mind, we offer the following definitions.

1. **Business:** a form of cooperation involving the Production, Exchange and Distribution of goods and services for the purpose of achieving Collective Value.
2. **Business Participant:** someone who affects or is affected by the pursuit of Collective Value. Some Business Participants are identified through their membership in entities that affect or are affected by the pursuit of Collective Value.
3. **Positive Value:** a reason for acting where the object of the act is seen as worthy of pursuit.

4. **Negative Value:** a reason for acting where the object of the act is seen as aversive.
5. **Intrinsic Value:** a Positive Value whose worth does not depend on its ability to achieve other Positive Values.
6. **Benefit:** the contributions made by Business to the satisfaction of a Business Participant's Positive and Intrinsic Values, net of any aversive impact on the satisfaction of those same values.
7. **Collective Value:** the agglomeration of the Business Participants' Benefits, again, net of any aversive Business outcomes.
8. **Dignity:** an Intrinsic Value prescribing that each Business Participant be treated with respect, compatible with each person's inherent worth.
9. **Dignity Threshold:** the minimum level of respect accorded to each Business Participant necessary to allow the agglomeration of Benefit to qualify as Business Success.
10. **Business Success:** optimized Collective Value, optimized subject to clearing the Dignity Threshold. Equifinality assumed, alternative states of Business Success are possible.

#### *Business and business participants*

We understand Business to include a system of production, exchange, and distribution relationships among and between the entities that constitute firms' value chains: firms themselves, civil society, institutions of government, and the communities that both sustain and benefit from business activity. All of these entities, and the individuals that comprise them, participate in business activity. However, we reserve the term "Business Participant" for those who are the ultimate bearers of value, namely, persons. Many but not all Business Participants are identified through their membership in business entities. The term, Business Participant, expansively includes anyone who affects or is affected by business. As such, our definition echoes Freeman's (1984) capacious intuition about stakeholder identification. That said, we use the term "participant" and not "stakeholder" here. We do so because of the latter's longstanding association with the management of discrete business entities, not the conduct of business broadly (as we are examining here).<sup>7</sup> Production is a cooperative process in which inputs generate outputs, goods or services in the world of business. Exchange is a voluntary and cooperative process in which a good or a service is given in anticipation of a return. And distribution captures both the cooperative processes by which those goods and services reach their buyers and the resulting pattern of who does or does not buy them.

<sup>7</sup> For example, note that Freeman et al. (2010) began their impressive review and assessment of stakeholder theory by talking about "a business" ["Stakeholder theory suggests that if we adopt as the unit of analysis the relationship between a business and the groups and individuals who can affect or are affected by it, then..." (p. 5)]. They ended their book talking about "the business" ["...at the center of starting, managing, and leading a business is a set of stakeholder relationships which define the business" (p. 291)]. Taking absolutely nothing away from stakeholder theory and its many contributions, our focus here is different.



It may strike some as odd that our definition of business emphasizes cooperation instead of competition. To be sure, competition plays an essential role in business. Many even see it as the heartbeat of market capitalism. Still, if we want to understand the purpose, accountability, control, and success of business, we must place competition in its proper context. Competition is significant because it serves as an important means to maximize value. However, it is not the only means to create value. The ability of groups to cooperate in competitive systems is also recognized as a critical economic success factor (Lado, Boyd, & Hanlon, 1997; Markussen, Reuben, & Tyran, 2014). With competition so celebrated in contemporary society (Stalk, 2006; Stalk & Lachenauer, 2004), we need to be alert to goal displacement (means/ends inversion). We need to keep in mind that competition itself is not the goal of business.

Effective competition requires the social consent that we see embodied in our cooperative institutions. For example, an independent judiciary that enforces contracts and property rights and the regulatory institutions that forestall harmful monopolies together enable markets to function properly. Social contracts help to form the normative underpinnings of business (Donaldson & Dunfee, 1994, 1995, 1999; Sacconi, 2006, 2007). We cooperatively create, manage and participate in competitive markets to create collective value.

#### *Positive and negative values*

The term “value” is commonly heard in discussions of economics and business. Interestingly, it is often left undefined, or when defined, interpreted through a price mechanism or systematized preference rankings (including the analysis of indifference). In contrast, the concept of value is ubiquitous and the object of extensive analysis in moral theory. Each one of the many respected attempts to systemize morals over more than two millennia may be said to entail some definition of value, either directly or indirectly (Aquinas, 1945; Aristotle, 1962; Hamilton & Cairns, 1961; Kant, 1949, 1959; Mill, 2001; Moore, 1903; Ross, 1930; Sidgwick & Jones, 1901; Spinoza & Parkinson, 2000). That said, non-philosophers are often surprised not by the divergence of ethical views in moral philosophy, but by their convergence. While disagreements rage over meta-ethical issues such as moral realism (the question of whether moral qualities are reflected directly in “facts”), the more basic normative moral questions have surprisingly convergent answers. Noisy disputes about abortion, gay marriage, and the role of religion in society may command our attention, but the fact is that we all share similar views about such basic values as health, dignity, and justice.

Popularized by Rawls (1971/1999, 1993/2005), the term “overlapping consensus” denotes how people who support different underlying normative doctrines, including different religious doctrines, can still agree on specific principles of justice. We use it here more expansively to refer to values that are endorsed, although to varying degrees, by people with different cultural and religious views. For example, some version of the Golden Rule is found in every one of the world’s major religions. Members of the United Nation’s General Assembly endorsed the

Universal Declaration of Human Rights in 1948 without dissent. It enshrines such basic values as dignity and freedom. In the world of positive psychology, Dahlsgaard, Peterson, & Seligman (2005) examined Eastern and Western philosophical and religious traditions, isolating six core virtues that recur in the writings: courage, justice, humanity, temperance, wisdom, and transcendence. Relatedly, social psychologists often find patterned regularity when they examine moral notions around the world (Haidt & Kesebir, 2010). In all, we see an overlapping global consensus about such values as freedom, beneficence, self-control, knowledge, happiness, family, friendship, environmental quality, security, integrity, the right to own property, self-respect, and fairness. In business, the same is true. A recent global survey found that employees agree on core standards such as integrity, fair dealing and promise keeping (Paine, Deshpande, & Margolis, 2011). This kind of convergence offers a clue to the non-arbitrary foundation for the classification of human values.<sup>8</sup> We will elaborate upon that non-arbitrary status when we better consider the definition of Intrinsic Value.

We define a Positive Value as a reason for acting when the object of the act is seen as worthy of pursuit. In other words, a Positive Value is someone’s reason for acting. This definition taps a deep legacy in moral philosophy, one that defines values in terms of reasons and one that relates values to human interests (c.f., Perry, 1914, 1926). By definition, some reason or other, whether good or bad, motivates intentional behavior. T.M. Scanlon’s view, reflected in the approaches of contemporary moral theorists, is that “to call something valuable is to say that it has other properties that provide reasons for behaving in certain ways with respect to it” (Scanlon, 1998, p. 96). The language of values can confuse because insofar as “value” is a noun, the term suggests that values are things in the world, akin to physical objects. But using value as noun is not meant to reify values; it is simply a shorthanded way to reference the process of deliberate action wherein someone acts for an underlying reason.

In turn, a Negative Value constitutes a reason for not acting or avoiding something undesirable or aversive. It is often the negative form of a positive value. For example, the negative value of sickness finds its opposite in the positive value of health. We introduce the concept of negative and positive values in order to capture the richness of ordinary language. Some words in a given language express a value even though the language lacks an exact word for its opposite (in such cases, we struggle to find many words to serve as an antonym). The word “interference,” for example, finds no precise English language opposite. While words like cooperation, facilitation, encouragement, enable and assist come to mind, a

<sup>8</sup> Contrariwise, the cynical view of ethics expressed in the so-called doctrine of “normative ethical relativism” is not seriously defended in moral philosophy. This doctrine holds that “If someone thinks it is right (or wrong) to do A, then it is right (or wrong) for him to do A.” As Richard Brandt noted, despite rather wide popular acceptance, this doctrine is thought to be absurd by philosophers because it implies “that there is no point in debating with a person [about] what is right for him to do unless he is in doubt himself” (Brandt, 1967, p. 76).

person looking to avoid interference merely seeks the absence of interference, or “non-interference.” That said, it may be necessary to assume precise value polarity (i.e., the idea that any negative value can be construed as the negation of a positive value, and vice versa) when we grapple with how best to measure value satisfaction.

A value can serve as one person’s reason for acting and not another’s. In other words, values can be matters of personal taste. My reason for acting in a particular instance may be to avoid buying a car, and yours may be the opposite. You may want to buy a car to stop riding a city bus; I may move to a convenient bus line in order to sell my car. Such values, whether positive or negative, are agent-specific.

### *Intrinsic value*

Some values are not agent-specific. Such values are Intrinsic Values. Suppose that owning more land is a value for you, and someone asks you why you value owning more land. If you attempt to give a persuasive answer, you need to appeal to a higher-order reason that is understandable to the questioner. You might reply that owning more land gives you a sense of security, with the inference that your higher-order reason is the value of security. This answer may well satisfy your questioner since the both of you probably agree that security is a value. But suppose the person surprises you and follows up with another question, “Why do you value security?” Here, your reply may well be something like “I don’t value security for some further reason; rather, security is something I think has intrinsic worth.” In other words, you would be saying, “I think security is an intrinsic value.” When something that is “worthy of pursuit” does not have its own value derived from a higher-order value, it counts as an Intrinsic Value. It is a final reason for acting. Intrinsic values, in turn, possess an “objective” normative status. Even were society to form an overlapping consensus affirming the rightness of slavery, society would be wrong. The intrinsic value of personal freedom tenders a non-relative claim.

Many if not all of our important values are dependent ultimately on higher-order values that are intrinsic in this sense. One may value wealth partly because one values the capacity to be charitable (i.e., to display beneficence). Beneficence itself, however, need not be derived from some other value. It can stand on its own two feet. Accordingly, we define an Intrinsic Value as a form of value whose worth does not depend on its ability to achieve other Positive Values. It is non-derivative. Moreover, in a world where others call us to account for our conduct, an intrinsic value can serve as a primary justification for behavior. Understandable as a good reason for any person, it constitutes a final reason for acting.

Both intrinsic and non-intrinsic values can be understood in two different ways, ways that correspond roughly to reasons that concern *goods* and reasons that concern *principles*. A person may act for the sake of either “having a good” or for the sake of a “principle.” Rawls’s (1971) “primary goods” (i.e., those “things that every rational man is presumed to want”) count as reasons in the former category. However, an alternate way to speak about intrinsic values is in the form of principles. A person

may act for the sake of a moral principle such as beneficence, integrity, or promise keeping.

One might challenge the idea of intrinsic values by saying, “Show me a definitive list of intrinsic values!” Philosophers have constructed and defended many such lists over the years. Two of the best known are W.D. Ross’s list of “Prima Facie Duties” (Ross, 1930) and William Frankena’s list of “intrinsic goods” (Frankena, 1973). Frankena’s long list includes such values as cooperation, experiences of achievement, self-expression, freedom, peace, security, adventure, and novelty (Frankena, 1973, pp. 87–88).<sup>9</sup> Of course, people investigate these lists to see if they are in fact, intrinsic. Some wonder if all such intrinsic goods can be subsumed under a single overarching intrinsic value or failing that, rank-ordered. This question has been debated for hundreds of years. Adam Smith (1759/1981), for example, argued that the most important human value is beneficence. Immanuel Kant (1959: 11) later identified “a good will” as the overarching value: “Nothing in the world – indeed nothing even beyond the world – can possibly be conceived which could be called good without qualification except a *good will*.” John Stuart Mill (2001) later argued that happiness is that single overarching intrinsic value. As we noted above, Jones and Felps (2013a; 2013b) recently introduced this view to the contemporary world of corporate governance. Interesting as it may be, we do not need to resolve this debate here. We simply point out that intrinsic values exist. As we will see, this fact is essential to any theory of business.

### *Benefit*

Benefit represents the contributions made by Business to the satisfaction of a Business Participant’s Values, including his or her Intrinsic Values. Because excellent production in a cooperative context (Business) is marked by the efficient production of goods and services, it follows that the values likely to be fulfilled in business are those best served by the functions of production and exchange. Such values include physical security, healthcare, personal freedom, family support, education, and charity. Indeed, while the methodological and econometric challenges are many, the current evidence seems to suggest that there is a positive relationship between wealth (looking at both GDP per capita and household income) and reported measures of well-being. The well-being measures are very abstract. Diener, Tay, and Oishi (2013, p. 269) and Sacks, Stevenson, and Wolfers (2012, p. 1182), for example, both looked at evidence from the Gallup World Poll, where respondents appraised their lives on an 11-point scale. Their assessments ranged from zero (worst possible life) to ten (best possible life). Future work will no doubt examine much more fine-grained measures of well-being. That said, we imagine that some values are difficult to serve through the

<sup>9</sup> Psychologists also pursue this quest. Rokeach (1973), an eminent social psychologist, developed a value survey comprising 18 terminal values (identifying desirable end-states) and 18 instrumental values (identifying desirable means to those ends). The former include such values as a world at peace, family security, and freedom; the latter include such values as being honest, ambitious, and responsible). Identifying ten broad human values, Schwartz (2006) has worked hard to assess their universality.

production function. Love, community, virtue, self-control, integrity, friendship, self-respect, lack of prejudice, and spontaneity come to mind.

Finally, the word “satisfaction” in our definition needs some attention. Satisfaction itself has specific characteristics. First, the satisfaction of a particular value refers to the satisfaction of that value for a particular Business Participant. Second, satisfaction admits degrees. Any person’s particular value may be more or less satisfied. Third, satisfaction itself can be a paradox. There may be limits to satisfaction. More satisfaction may not always be satisfying.<sup>10</sup> And fourth, some values are more important to one person than another. This fact becomes important when we consider the nature of Collective Value.

### Collective value

We stated earlier that Collective Value is the agglomeration of the Business Participants’ Benefits, net of any aversive Business outcomes. While the meaning of that sentence is clear, the ability to assess that statement in practice is anything but clear. Einstein reportedly said, “Not everything that counts can be counted, and not everything that can be counted counts.” Not all Benefits can be easily appraised, much less combined in a fashion that allows for easy summation and comparison. The satisfaction of a set of values for an individual person, not to mention a group of people, is impossible to measure accurately on a simple numerical continuum. The chief problem is incommensurability. For example, how are we to compare Jack’s utility or happiness to Jill’s (Hausman, 2013)?

Note that we use the word agglomeration and not aggregation in our definition here. Both words refer to a clustering but their ultimate coherence differs. Merriam Webster defines an agglomerate as a mass that is “clustered or growing together but not coherent;” the dictionary defines an aggregate as “a mass or body of units or parts somewhat loosely associated with one another.” Collective Value represents an agglomeration of benefits, not an aggregation of benefits. To illustrate, consider the value expressed by a human right, say, the right to religious freedom. This is significantly different from the value expressed by beneficence. The former implies a defined minimum standard of behavior relevant to particular contexts over which the agent has no control. Beneficence,

in contrast, implies a duty to go above minimum levels of prescribed behavior. It allows the duty to be exercised using considerable agent discretion in self-defined contexts.<sup>11</sup> A person may value religious freedom and beneficence but it is not at all clear how we might easily combine the two into a simple summation of benefit.

We should note that while alluring, the logic of neo-classical economics fails us when we consider Collective Value. Neo-classical economics inherited its notion of value from early 19th century utilitarian philosophers, developing theories of utility that could be easily mathematicized (Deane, 1978). While the early notion of “utils” (units of utility) was eventually abandoned in favor of marginal utility, neo-classicists such as Jevons (1871) adopted value monism and assumed that economic activity could be subsumed (i.e., aggregated) under the banner of a single value, happiness. Not so Collective Value. Those uncomfortable with value monism need to be comfortable with the consideration of an agglomeration of multiple values, and multiple values of differing character. Alas, there is no Esperanto of values.

Acknowledging severe limitations in our ability to measure Benefit and Collective Value, we hasten to add that not all is lost. Some states of value satisfaction are clearly better than others. *Phronesis*, or practical wisdom, tells us that this is so (Aristotle, 1962). If values, or bundles of values, were truly incommensurable, we could not speak rationally about some all-things-considered value choices being better or worse than others. Practical wisdom refers to the ability to make good “all-things-considered” choices, even in multi-valued contexts. Imagine an employee, Bob, who reasons about whether to choose job A or job B. Bob thinks: “In job A, I have a monthly salary that is \$10 higher than in job B, and I am treated with disrespect and ignominy. In job B, I have a monthly salary that is \$10 lower than in job A, and I am treated with respect and dignity. I conclude that job B is a better job than A.” Here Bob compares two things that appear to be incommensurate at first blush, namely, the value of dignity and the value of money. But Bob reasons well. The objectivity of Bob’s choice is reflected in the fact that a vast majority of people would reason in the same way if confronted with this choice. Neo-classical economists view human beings as rational economic agents, as *Homo Economicus*. We view our fellow men and women as practical reasoners, as *Homo Practicus*.

### Dignity, the dignity threshold, and business success

If business exists to create collective value, it follows that any theory of business must be normative. A theory like this must say something about the world we hope to inhabit. We need to come to terms with how business creates value and serves society. Recognizing that aversive outcomes can attend the conduct of business, we also recognize that some aversive outcomes are simply out of bounds. Our challenge as a people is to determine just what behavior is acceptable and what is unacceptable.

<sup>10</sup> In the extreme, the satisfaction of a positive value could even become problematic. Lewis (2014, pp. 308–309) summed up the phenomenon: “The more I looked into it the more I came to suspect that I was perceiving a universal law. *On cause mieux quand on ne dit pas Causons*. The woman who makes a dog the centre of her life loses, in the end, not only her human usefulness and dignity but even the proper pleasure of dog-keeping. . . . It is a glorious thing to feel for a moment or two that the whole meaning of the universe is summed up in one woman [or man]—glorious so long as other duties and pleasures keep tearing you away from her [him]. But clear the decks and so arrange your life (it is sometimes feasible) that you will have nothing to do but contemplate her [him], and what happens? Of course this law has been discovered before, but it will stand re-discovery. It may be stated as follows: every preference of a small good to a great, or a partial good to a total good, involves the loss of the small or partial good for which the sacrifice was made.” Contrariwise, diminished satisfaction can also become satisfying. For example, patients can come to enjoy the sick role (Mechanic and Volkart, 1961).

<sup>11</sup> This illustration captures the distinction between “perfect” vs. “imperfect” duties that we see in moral theory (Kant, 1996).

In legal terms, we are looking for a moral “bright line rule,” one that tells us what kind of business activity is to be strictly forbidden (Schlag, 1985). We suggest that at a minimum, dignity establishes that decision criterion.

The idea of the dignity of the person has deep roots in moral philosophy and political action. In moral philosophy, the very possibility of realizing intrinsic values (and of moral behavior in general) presumes the inherent worth of actors capable of such achievements. In different ways, Utilitarianism, Kantian deontology, and Aristotelianism all affirm the worth of that actor who uniquely possesses the capacity to achieve the good and the right, namely, the moral person. Whether grounded in sacred notions of the divine or secular notions of agency and autonomy; every individual has what Rosen (2012, pp. 9, 70) calls “an inner transcendental kernel of inalienable value.”<sup>12</sup> Kateb (2011), Lagon and Arend (2014a), Rosen (2012), and Waldron (2012) all offer contemporary reviews and their own ideas about the dignity construct. From them, we learn that dignity carries an action implication. Endowed with this inner “transcendental kernel,” every individual is entitled to respect. Indeed, political life is judged by its affirmation and protection of human dignity.

In 1776, the U.S. Declaration of Independence famously began with an assertion that “all men are created equal.” All men – and women – are not only created equal, they must be treated as equals. They must be accorded their human dignity. Nine years later, Kant (1959, p. 54) cast this kind of thinking into his categorical imperative. He argued that we are always to “act so that you treat humanity, whether in your own person or in that of another, always as an end and never as a means only.” This same kind of thinking was enshrined 163 years later in the Universal Declaration of Human Rights. Without dissent, the United Nations General Assembly affirmed a document that begins with the words:

the recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family [; such dignity] is the foundation of freedom, justice and peace in the world.

Germany took this kind of aspirational thinking a step further the next year. In 1949, they affirmed the importance of human dignity in Article 1 of the Basic Law for the Federal Republic of Germany (Grundgesetz): “Human dignity shall be inviolable. To respect and protect it shall be the duty of all state authority.”<sup>13</sup> This is not just an aspirational statement; it is an enforceable one.<sup>14</sup> Thus, human dignity, with roots both in moral theory and

in political action, serves as a central and even sacred Intrinsic Value to guide Business activity.<sup>15</sup>

Our understanding of human dignity tells us that our fellow humans are not to be treated as mere objects or instruments in a business organization’s production function. Business participants are to be treated with respect. As such, the Dignity Threshold establishes a moral foundation for business activity. The challenge, of course, is to identify what treatment does or does not clear the threshold. Since the threshold marks the minimum level of respect accorded to each Business Participant, the threshold can best be seen as prohibiting indignity. To be sure, participants can bolster another’s dignity, enhancing *eudaimonia* (what the ancients called human flourishing), but at minimum, Business Participants cannot deny each other’s fundamental dignity.

Borrowing language from the world of statistics, we can say that dignity is both a “categorical” and “continuous” idea. When we speak of an indignity, we speak of dignity as a categorical idea. Hold someone as a slave, for example, and regardless of how well you might treat that person, you fully deprive that person of his or her dignity. There is absolutely no dignity in slavery. Thomas Jefferson may have fathered six children with Sally Hemings but owning her as his property until the day he died, he denied her dignity (Gordon-Reed, 2008). Article 4 of the U.N. Declaration on Human Rights is unequivocal: “No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.” The US South in the first half of the nineteenth century relied upon the institution of slavery to support its expansive system of plantation farming. Even if slavery enhanced the GDP or PPP of the region, plantation farming cannot be considered Business Success. Slavery stripped its captive people of their dignity. The institution of slavery simply does not pass the Dignity Threshold. That fact cannot be offset at a personal level by seemingly decent interpersonal treatment. The theory of business offered here directs and justifies every effort to dismantle a business system that so violates human dignity.

With *eudaimonia* in mind, we can see too that dignity exists on a continuum. The absence of indignity does not fully capture what it means to be treated with dignity and to flourish. Consider how we produce and distribute the food we need to survive and thrive. With the idea of human dignity front of mind, Article 25 of the U.N. Declaration of Human Rights states:

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness,

<sup>12</sup> Of course, some deny others their inalienable value. Tyrants, for example, may deny an entire ethnic group their value and upon doing so, unleash all manner of horrors upon them (Dean, 2002; Hintjens, 1999).

<sup>13</sup> See [http://www.gesetze-im-internet.de/englisch\\_gg/englisch\\_gg.html#p0015](http://www.gesetze-im-internet.de/englisch_gg/englisch_gg.html#p0015) for look at this law.

<sup>14</sup> See Lepsius (2006) for an intriguing case in the Germany’s Federal Constitutional Court. The court weighed the dignity and lives of passengers on an airplane commandeered by terrorists against the dignity and lives of the citizens below whom the terrorists intend to kill with that plane. The decision surprised many observers. The innocent people on the doomed aircraft cannot be killed in an effort to protect the people on the ground.

<sup>15</sup> Tetlock, Kristel, Elson, Green, and Lerner (2000, p. 853) define a sacred value as “any value that a moral community implicitly or explicitly treats as possessing infinite or transcendental significance and that precludes comparison, trade-offs, or indeed any other mingling with bounded or secular values.” Harrison, Ashforth and Corley (2009, p. 244) point out, “to sacralize is to render inviolable, such that even contemplating a violation of the sacred is an act of sacrilege.”

disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

Gendered language aside, the key word here is “adequate.” The World Health Organization tells us that a healthy diet consists of “fruits, vegetables, legumes (e.g. lentils, beans), nuts, and whole grains (e.g. unprocessed maize, millet, oats, wheat, brown rice).” Some may rarely eat fruits or say vegetables, but regularly eat all else. Is that to be considered an adequate diet? Others may be chronically short of many of these diverse foodstuffs and be formally labeled as undernourished (the United Nation’s World Food Programme tells us that about one in nine, or 795 million people in the world today are undernourished).<sup>16</sup> A healthy diet can be thought of in categorical terms (Is a person undernourished or not?) or in continuous terms (What is the quality of a person’s nutrition?). What is the difference between an “inadequate” diet, an “adequate” diet, a “good” diet, and an “excellent” diet? That question is born of a “continuous” understanding of nutrition. To ask whether a person has an adequate diet is to ask “how low we can go” before we rob a person of his or her dignity; to ask whether a person has an excellent diet is to ask “how high we can fly” as we embrace a person’s dignity.

Some may argue over where to draw a line that establishes the criterion for proper nutrition – or clothing, housing, medical care, social services and the right to security, or for that matter, the many complex interactions between and among the access to nutrition, clothing, housing, medical care, social services, and security. Arguments about measurement and demarcation do not undermine the ideas we share here. In fact, we welcome them. We can do worse as a people if we agree to prohibit indignities in the world and then debate the essence of the dignity we owe each other.

Looking to Article 25 for help in understanding the nature of dignity, we should point out that we are not arguing here for the corporation or business to cloth the naked and feed the hungry. Direct responsibilities fall clearly on governments and individuals. Nevertheless, as many have argued, business cannot duck responsibilities to respect, protect and sometimes remedy and violations of basic human rights (Donaldson, 1989, pp. 65–94; Ruggie, 2008).

Writing about the nature of society, Margalit (1996, pp. 10–11) observed, “A society is decent if its institutions do not act in ways that give the people under their authority sound reasons to consider themselves humiliated.” Expanding on Margalit’s notion, we would say, “Business is decent if its institutions do not act in ways that give the people under their authority sound reasons to think their inherent worth has been denied.” Beyond that, if business is to be considered successful, collective value must be optimized, enhanced as much as possible. That optimization process must include the recognition of participants’ dignity. Rosen (2012, p. 157) got it right when he said,

“In failing to respect the humanity of others we actually undermine humanity in ourselves.”<sup>17</sup>

Next, we consider a more complex contemporary business situation that illustrates how purely economic notions of business success can fail us.

### Collective value in the world of coffee

Let us consider a stylized, but not unimaginable case. Consider a simplified value chain for the production of coffee, one that includes the relationships among the farmer, the roaster, and the retailer [see Ponte (2002) for a more complete examination of coffee’s value chain]. In this world, the farmer grows the coffee beans; he or she then sells them to the roaster, who in turn, sells the roasted beans to the retailer. The retailer, of course, sells the beverage to the consumer. For purposes of simplicity, we assume a world comprised of one farmer, one roaster, and one retailer.

In this simple value chain, we clearly find activity that fits our definition of business activity, namely, cooperation involving the production, exchange, and distribution of goods and services (albeit one without a consideration of the government and not-for-profit sector). How do we assess Collective Value here? We know that Collective Value in the value chain equals the agglomeration of the Business Participants’ benefits [i.e., the benefits that accrue to the farmer, the roaster and the retailer], net of any aversive business outcomes. Because Benefits equal the contributions made to the satisfaction of a Business Participant’s Positive and Intrinsic Values, it follows that we must also assess the satisfaction of their values.

Let us consider first Intrinsic Values in agglomerating the satisfaction of these participants’ values. Again, Intrinsic Values can be divided into two types: good-related and principle-related. For the purposes of simplicity, we identify only one good-related value here, health, and only one principle-related value, promise keeping.<sup>18</sup> We assume that both of these intrinsic values are positive values for the farmer, roaster, and retailer. In agglomerating the satisfaction of their values, next consider non-intrinsic values. For simplicity’s sake, we identify only three non-intrinsic values. Each participant has his or her own idiosyncratic value: the farmer wants to build his or her businesses, the roaster wants to better educate his or her children, and the retailer wants to improve his or her means of personal transportation.

We will consider three possible configurations of Collective Value: Optimized Collective Value (or Business

<sup>17</sup> It is not always easy to recognize another’s dignity. Molinsky and Margolis (2005), for example, alerted us to the challenge of administering a “necessary evil” to another. They pointed out that there are times when “an individual causes emotional or physical harm to another human being in the service of achieving some perceived greater good or purpose” (p. 247). Still, Margolis and Molinsky (2008, p. 858) showed us that these evils can be administered with “respect, dignity, empathy, and concern.”

<sup>18</sup> While human dignity is the paramount intrinsic value in our work, promise keeping deserves special treatment too. Promises seal contracts, a *sine qua non* for Business activity. It is no surprise to see that agency theory and transaction cost economics both turn on the concept of contract.

<sup>16</sup> See (<http://www.who.int/mediacentre/factsheets/fs394/en/>) and (<https://www.wfp.org/hunger/stats>) for links to the work of the WHO and the WFP.

**Table 1**  
Business success: the participants' intrinsic and idiosyncratic values are satisfied.

Enterprise	Intrinsic value 1—Health	Intrinsic value 2—Promise keeping	Positive value 1—Build a business	Positive value 2—Better educate our children	Positive value 3—Improve personal transportation
Coffee farmer	+	+	Buys more land (+)		
Coffee roaster	+	+		Pays private school tuition (+)	
Coffee retailer	+	+			Buys a Kia Rio (+)

Success), Unsavory Business Practices, and the Exploitation of Advantage. For purposes of simplicity, we assume that the values at stake here are either fully satisfied or not satisfied. A plus sign expresses the satisfaction of a given value; a negative sign expresses the failure to satisfy a given value (we do not attempt to weigh the different values or to assign a rank ordering here).

First, imagine a simple configuration of Business Success (i.e., proximity to optimized Collective Value). In this configuration, the business activities of the value chain satisfy all intrinsic and selected non-intrinsic values for the farmer, roaster, and retailer (see Table 1). Everyone receives enough from their business activities to ensure their adequate health. Moreover, promises among the three are kept (honoring their business contracts and quality commitments). Next, the non-intrinsic values are satisfied, one for each of the Business Participants. The farmer earns enough money to buy more land, the roaster is able to send his or her children to private school, and the retailer is able to purchase a modest automobile, say a Kia Rio. Each row expresses the Benefit to each participant. The matrix itself represents the agglomeration of the individual benefits, the Collective Value of Business in this stylized world of business.

Imagine next a different state, one called Unsavory Business Practices (see Table 2). Here the intrinsic value of promise keeping is not satisfied but the intrinsic value of health is satisfied. Suppose, for example, that despite persistent lying and broken commitments all around, the productive capacity of the value chain is sufficient to satisfy all other values, including the participants' health.

Despite productive abundance, something is missing in this world of business. The Collective Value matrix is not optimized. Most people prefer to live in a world of kept promises. This inferiority of this “all things considered” world of business, one reflecting a violation of intrinsic values, is difficult to depict accurately using traditional economic methods. “Objective values,” at the very minimum, constitute constraints on the “skeletal view of rationality espoused by economists” (Hausman & McPherson, 1993, p. 683). Deontological concepts that reference commitments and obligations are needed; and these can conflict with economic concepts of well-being. “Some types of agency roles, e.g., those related to fulfilling obligations,” writes Sen (1985, p. 187), “can quite possibly have a negative impact on the person's well-being.”

Finally, let us consider a configuration called the Exploitation of Advantage (see Table 3). Here one actor's pursuit of an idiosyncratic value undermines another actor's fundamental intrinsic value and his or her idiosyncratic value. Imagine a world where the retailer

claims most of the value simply because he or she can. Intrinsic Values met, he or she is also able to grandly satisfy his or her idiosyncratic value by purchasing a conspicuously luxurious mode of transportation. The roaster's place in the value chain is secure; he or she neither gains nor loses by the change of affairs. The farmer, however, now lives in a world of life-threatening poverty. His or her intrinsic value of health is no longer satisfied as low prices create a life of desperate poverty. He or she then moves to supplement the coffee crop with opium or khat in a desperate effort to earn enough money to eat (Khat tops coffee for Ethiopia farmers, 2014; Myanmar returns to what sells: Heroin, 2015). Such an imagined world may not be too far removed from today's actual world of coffee production and consumption (Haight, 2011; Ponte, 2002; Valkila, Haaparanta, & Niemi, 2010). The acclaimed 2006 documentary film entitled “Black Gold” captures something of this life.<sup>19</sup>

Of course, this simple three-actor model does not account for the problem of externalities. That said, it is easy enough to illustrate the externality problem in this kind of world. All we need to do is play out the success story pictured in Table 1. Problems arise when farmers, moving to satisfy consumer demand, move their now industrial-based farming practices from the shade to the sun. Nearly twenty years ago, Perfecto, Rice, Greenberg and van der Voort (1996, p. 607) warned of a “severe loss of biodiversity” if coffee farmers continued to move their operations into the sunshine. Jha et al. (2014) recently told us that in a world where we now drink more than 400 billion cups of coffee annually, perhaps only a quarter of the world's coffee is grown traditionally, in the shade. They chronicle the deleterious effects of sun-grown coffee practices on the likes of pollination, pest control, carbon sequestration, soil quality, erosion control, and watershed management. Grim as the situation is, Tschardt et al. (2011) do offer a host of ideas to reverse the situation. Nevertheless, unless checked, “successful” coffee farming can create problems for us all.

As the above analyses show, Business Success names a concept richer than one focusing solely on the mere aggregation of economic wealth. True business success should be able to show, as this model does, why the first configuration is superior to the other two (albeit with a clear eye on how that success might affect the natural environment in the years ahead). Our conception of business merges values that are not expressly contemplated in economic theory with ones that are. Simple

<sup>19</sup> See (<http://blackgoldmovie.com/>) for a link to the movie.

**Table 2**

Suboptimal collective value: unsavory business practices (while one of participants' intrinsic values and all of their idiosyncratic values are met, one intrinsic value is violated).

Enterprise	Intrinsic value 1—Health	Intrinsic value 2—Promise keeping	Positive value 1—Build a business	Positive value 2—Better educate our children	Positive value 3—Improve personal transportation
Coffee farmer	+	Lying and broken promises (–)	Buys more land (+)	Pays private school tuition (+)	
Coffee roaster	+	Lying and broken promises (–)			
Coffee retailer	+	Lying and broken promises (–)			Buys a Kia Rio (+)

**Table 3**

Exploitation of advantage: one participant's pursuit of an idiosyncratic value undermines another's fundamental intrinsic and idiosyncratic value.

Enterprise	Intrinsic value 1—Health	Intrinsic value 2—Promise keeping	Positive value 1—Build a business	Positive value 2—Better educate our children	Positive value 3—Improve personal transportation
Coffee farmer	Living in poverty (–)	+	Now grows narcotics (–)	Pays private school tuition (+)	
Coffee roaster	+	+			
Coffee retailer	+	+			Buys a Cadillac Escalade (+)

economic thinking contemplates the values of subjective personal preference (e.g., property and financial well-being) but not one's intrinsic values (e.g., human dignity and promise keeping). To be sure, economic thinking does not expressly dismiss such values; the values simply fall outside the circumscribed domain of economic theory. As Sandel (2012, 2013) recently observed, a preoccupation with a narrow set of values will have the cumulative effect of crowding out consideration of the kinds of intrinsic values we consider here.

## Implications

### *The purpose, accountability, control, and success of business*

We opened this work by chronicling the normative pressure on firms to serve as agents of world benefit. Those who encourage businesses to change (e.g., the United Nations and the Aspen Institute) are not marked by a lack of economic sophistication but rather by a quest to honor human dignity when we produce, exchange, and distribute our goods and services. This quest inspired our attempt to develop a theory of business.

To be sure, our theory is a normative one. Looking to articulate the role that business plays in creating a good society, it cannot be otherwise. Freeman (1994) is correct. The separation thesis is false. Any attempt to separate business activity from values is akin to trying to separate a vase from its shape. The same is true of business. It is impossible to jettison values from a comprehensive consideration of business practice. Business activity always reveals the values that shape it. Those values are revealed in any consideration of the purpose, accountability, control, and success of business. As such, we offer the following four propositions as corollaries to a theory of business:

- P1: The purpose of business is to optimize collective value.

- P2: Business is accountable to those who affect and are affected by its activities, those in the present, past, and future.
- P3: Business control must prohibit any assault on participants' dignity.
- P4: Optimized collective value is the mark of business success.

Three noteworthy features mark these propositions. First, we need to consider the idea of equifinality. There are many paths to business success. Second, the idea that business is accountable to business participants in the past and future, as well as to those in the present, is worthy of discussion. And finally, we need to say a word about optimization in this context.

### *Equifinality*

One important implication of these propositions is that not all business firms need to be alike. In fact, a variety of organizations will likely achieve collective value better than a set of firms marked by cookie-cutter similarity. Consider an analogy. A coordinated team of carpenters, electricians, plumbers, masons and the like will build a better home than any one group will build on its own (or even one made by a Jack-of-all-trades artisan). And of course, it takes more than craftspeople to build a building. Bankers, lawyers and insurance specialists, for example, enable this work too. The second implication is that the work of business needs to be coordinated. To be sure, markets facilitate coordination but those markets themselves need to be developed and sustained. Government and the not-for-profit sector play crucial roles in business too. In addition to providing the infrastructure for efficient and effective contracting among the parties, government ensures the quality of building materials, the well-being of the natural environment, the safety of the builders, and so much more. The not-for-profit sector works to both ensure that standards and safeguards of all kinds are defined and met, often before any government is involved (e.g., the National Fire Protection Association), and to make sure

that society's needs are addressed (e.g., Habitat for Humanity). Any single business firm always sits in a broader ecology of business activity. The amazing, and nearly infinite, variety of firms and coordination schemes available for achieving Business Success opens the door to equifinality. Many roads can lead to the same destination.

#### *Accountability to the past and future, as well as to the present*

Business participants are accountable not just to their contemporaries but to their ancestors and descendants too. That statement might strike some as very expansive, if not too expansive. To assert that business is to be accountable to those living who affect and are affected by its activity should pass without remark. To be sure, people read Freeman's (1984, p. 46) definition of a stakeholder ("any group or individual who can affect or is affected by the achievement of the activities of an organization") and wonder whether a firm should really view a competitor or even a terrorist as a stakeholder (Phillips, 2003). Still, no one questions Freeman's implicit focus on the living.

A move to consider the unborn might raise an eyebrow at first blush, but with some reflection, we see that people do accept the idea. After all, future thinking is baked into our everyday conceptions of management. Jacques (1986), for example, noted that a firm's senior leaders typically look twenty to fifty years into the future when they make their decisions. More recently, Elkington (1998, p. 55) famously defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs". Legacy matters. Indeed, a number of social psychologists are working today to understand just how people make forward-looking intergeneration resource allocation decisions (Tost, Wade-Benzoni, & Johnson, 2015; Wade-Benzoni, 2002; Wade-Benzoni, Hernandez, Medvec, & Messick, 2008; Wade-Benzoni, Sondak, & Galinsky, 2010).

However, people may not think about their predecessors' legacies. Do we owe anything to those who came before us? We say "yes." The humility that comes from an understanding of history does us good. Fundamentally, we need to appreciate that we inherit the world when we are born. We also would do well to appreciate that in time, our lives will be history too. Our legacy should be to leave the world better than we found it. In short, we should work to make our ancestors proud. In this spirit, Wade-Benzoni (2002, p. 1014) introduced us to the idea of intergenerational reciprocity. She argued, "people can pass on benefits (or burdens) to future generations as a matter of retrospective obligation (or retaliation) for the good (or bad) received from past generations" (p. 1014). Note that with a focus on all that is received (the good and the bad in her terms) – this is a descriptive theoretical idea. Normatively, we would do well to learn from the bad we inherit but resist the temptation to settle scores. All too often, retribution creates never-ending cycles of violence (Minow, 2002). It is much better to build on the good than it is to be caught up in the bad.

Mkhize (2004) tells us that many in Africa see themselves as interdependently linked to the past. People there strive to honor the best of their ancestors' legacies.

Such a view is less common in the global North. South or North, business leaders the world over would do well to consider how their decisions do – or do not – honor their ancestors' positive contributions to their lives.<sup>20</sup> Stewards for the world in our time here, we should work to honor our grandparents' contributions in the same way that we hope our grandchildren will work to honor ours. Taking stock of our recent financial crisis, Bruce Springsteen (Stewart, 2012, p. 45) lambasted those without such a sensibility:

This is what the guys at Bear Stearns and Lehman Brothers forgot. They forgot that they are a part of a continuum of history, and it's not about the fucking buck that you make today at whoever's fucking expense. If there's not a sense of continuity, a sense of some sort of communal obligation and responsibility, a sense of a future involved in what you're doing, and a sense of being beholden to the past, you end up being one callow, greedy motherfucker, just trying to get all you can get.

#### *Optimization*

We recognize that some may question our idea that optimized collective value is the mark of business success. They might argue that just as economists problematically assumed (for decades) that humans are perfectly rational and work to optimize their economic ambitions, we might have embraced a similarly problematic idea. Adopting the idea of optimization as we do, we risk a reader dismissing our ideas of success as fantasy. Perhaps we should follow Simon's (1945/1997) lead and develop an idea akin to his notion of satisficing. Perhaps we should develop a threshold notion of "satisfactory collective value" and use it instead to define business success. There is much to be said about that kind of a well-meaning reaction. At base, however, we think it is a mistake to introduce a "good enough" criterion to any consideration of business success. Merriam Webster tells us that optimization is "an act, process, or methodology of making something (as a design, system, or decision) as fully perfect, functional, or effective as possible." We do well to strive for business success that is as fully perfect, functional, or effective as possible. Why should we settle for anything less?

Remember that Herbert Simon's problem is not our problem. Simon (1978, p. 368) addressed the problem facing (what he called in his Nobel Prize acceptance speech) the "information processing system called Man." He investigated how individuals with limited information processing capabilities make decisions and solve problems in the face of incredible complexity and uncertainty. Faced with cognitive limitations, he argued that individuals

<sup>20</sup> A friendly reviewer asked if by turning to African society for inspiration, we risk dismissal by those who think "pre-modern" societies have little to teach us. We hold no such prejudice. Indeed, we are wary of those in the global north who think they are somehow more modern than those in the global south. History does not look kindly on such a view. To put it mildly, the people of the Congo, for example, were not impressed by the "modern ways" shown them by the Belgians at the turn of the last century (Hochschild, 1998).



operate with bounded rationality and satisfice, often finding “ways of action that are sufficient unto the day” (1978, p. 368). We are not searching for a descriptive theory of sufficient business behavior here. Rather, we are searching for a normative theory of business that will enable us to flourish as a species in the world. We owe it to our ancestors, ourselves, and to our descendants to strive for optimized collective value. Work for anything less and we will very likely get it.

*Beware a fallacy of division*

The fallacy of division is the converse of the fallacy of composition. We commit it when we imagine that the properties of a whole are fully transferable to its parts. Recalling Hansen’s (2015, p. 5) example, one cannot observe an excellent investigative team and infer that each member of the team is an excellent researcher. As Durkheim (1895/1966, p. 4) pointed out years ago in his discussion of social facts, “there are ways of acting, thinking and feeling that present the noteworthy property of existing outside the individual consciousness.” A team has properties that go beyond its membership, just as business has properties that differ from the firms that help comprise it.

The 2004 United States presidential election offers us a classic example of a division fallacy. While John Kerry won the popular vote in 9 of the country’s 11 wealthiest states and George Bush won the 15 poorest states, we cannot conclude that rich people voted for Kerry and poor people voted for Bush. In fact, 62% of voters with annual incomes over \$200,000 voted for Bush and 64% of voters with annual income less than \$15,000 voted for Kerry (Gelman, 2010). The fallacy here is to assume that the action of a wealthy state (the whole) can easily tell us about the behavior of the individuals in the state (the parts). Accordingly, we need to consider carefully what a theory of business implies for any single business firm. Instead of drawing inferences directly from our broader theory of business to any single firm, we should ask whether what is true at the level of business as a whole is compatible with what is true at the level of the firm. A number of open questions about such compatibility emerge when we juxtapose a theory of business with a theory of the firm.

Table 4 briefly contrasts the two perspectives and then raises a series of open questions for us to consider.

These questions open a new door to appraising and leading firms. They may also help to explain the uneasiness we catalogued at the start of this paper. Consider, for example, the beleaguered straw man, specifically the idea that firms are to reduce their transaction costs. Despite its critics (Ghoshal & Moran, 1996), some scholars took the occasion of Oliver Williamson’s 2009 Nobel Prize announcement to reflect on the theory’s contribution to the theory and practice of management (Teece, 2010), strategic management (Nickerson, 2010), international business (Hennart, 2010), and marketing (John & Reve, 2010). Many argue that transaction cost theory has yielded helpful insights to improve the efficiency of production and exchange and, in turn, generate collective value. However, the theory’s inability to address such issues as the obligation of the banking industry to avoid the systemic financial risks that can imperil the industry and society alike should surprise no one.

To be sure, the fact that these issues fall outside the reach of the transaction cost theory is not a failing of the theory *per se*. As Alfred North Whitehead (1978, p. 9) once noted, “The field of a special science is confined to one genus of facts, in the sense that no statements are made respecting facts which lie outside that genus.” The relevant theory for addressing such a concern is not transaction cost economics but rather a theory of business. Bank executives, for example, should ask, “Because the integrity of the financial environment is crucial for optimizing collective value, has our bank defined its purpose, understood its accountability, and designed its control systems in such a way that our activities are compatible with maintaining the integrity of the financial system?” Depending on circumstance, the same executives might follow with corollary questions, such as, “Might our need for collective value require a new approach for understanding competition and cooperation in our industry? Should we, for example, initiate industry-level conversations and even collaborations on how best to avoid systemic risk and protect the integrity of the global financial system?” After all, self-regulation is not unknown in the corporate world (Haufler, 2001). With this framing and example as backdrop, we will close our paper

**Table 4**  
Open questions: contrasting a theory of business with a theory of the firm.

	Theory of business	Neo-classical theories of the firm	Open questions for corporate leaders
Purpose	Optimize collective value	Maximize firm value	Is our corporation’s purpose compatible with Business achieving Optimized Collective Value for all Business Participants?
Accountability	To all Business Participants	To the law and to the firm’s owners	Is our form of corporate accountability compatible with Business achieving Optimized Collective Value for all Business Participants?
Control	Prohibit assaults on participants’ dignity	Guard against self-seeking with guile	Is our form of corporate control compatible with Business achieving Optimized Collective Value for all Business Participants?
Success	Optimized collective value	Shareholder wealth creation	Is the form of our corporation’s success compatible with Business achieving Optimized Collective Value for all Business Participants?

with a consideration of some issues that might bedevil us in the years ahead.

### *Purpose*

What is the purpose of a firm when the purpose of business is to optimize collective value? One might be tempted to reason that every firm must simply work to optimize collective value. This view, however, would evidence another instance of the division fallacy. Consider the human heart. The purpose of the heart is to pump blood. However, it is important to note that different parts of the heart, the ventricles, valves, septum, aorta and more, have their own discrete purposes. Now consider business. Just as the septum is a part of the heart that pumps blood, a firm is a part of the ecology of business that creates collective value. Few firms may be entirely focused on creating collective value. And that is fine. Still, they are not exempt from playing some role in that effort. After all, a firm is a moral entity that works in and for society. As such, a firm holds two interrelated purposes: first, a focal purpose, a purpose that reflects its work *in* society and second, a contextual purpose, a purpose that reflects its work *for* society.

The firm's focal purpose is familiar to every business student. Fail to provide customers with a high quality good or service at a competitive, profit-making price and the firm may well go out of business. Fail to reach those customers with an effective sales and marketing campaign, raise and manage capital, recruit and manage human resources, and efficiently manage their operations and the firm may go out of business. And to be sure, managers cannot ignore those who hold the firm's residual claims, those who hold common stock. The neoclassical economists persuasively point out that these risk-bearing shareholders are the ones most interested in maximizing the value of the entire corporation. Shareholders can keep managers ever attentive to creating sustained competitive advantage.

All of that said, the firm's contextual purpose cannot be ignored. A firm is a human creation, one designed by humans and for humans. At a minimum, all of its activities must clear the Dignity Threshold. No firm should disrespect the inherent worth, the dignity, of its many business participants. It must treat each one with respect. Moreover, no firm should forget that the final justification of its activities from a social perspective lies in its contribution to collective value.

Many firms are experimenting with aligning focal and contextual purposes in explicit ways. Indeed, such dedicated dual-purpose experimentation marks our age. Some firms, obeying the law, seek to maximize their shareholder's return. No one can complain about such firms if they clear the Dignity Threshold and recognize their broader purpose in society. Others, however, seek to make a more direct social impact as they conduct their business. Looking at what [Conley and Williams \(2005\)](#) called the "corporate social responsibility movement," we increasingly see firms making social investments of the kind [Kofi Annan \(2001\)](#) sought almost fifteen years ago. Others firms, LinkedIn for example, have a mission infused with social purpose. Their mission is to "connect the

world's professionals to make them more productive and successful"; their purpose is a lofty one – to "creat(e) economic opportunity for every member of the global workforce."<sup>21</sup> Others, B Corporations, submit themselves to outside appraisal and are formally certified as committed to transparent social and environmental performance (as they do their business). Nearly 1400 B Corps in 41 countries have been so certified as of this writing.<sup>22</sup> And still others, social enterprises, commit themselves to social and economic performance but do so absent third party certification ([Battilana & Dorado, 2010](#); [Ebrahim, Battilana, & Mair, 2014](#)).

Perhaps surprisingly, those steeped in neo-classical economics are not hostile to such experimentation. The noted legal scholars [Easterbrook and Fischel \(1991\)](#), for example, addressed this issue directly. All they request is transparency:

What is the goal of the corporation? Is it profit, and for whom? Is there anything wrong with company charity? Should corporations try to maximize profit over the long run or short run? Our response to such questions is: who cares? If the *New York Times* is formed to publish a newspaper first and make a profit second, no one should be allowed to object. Those who came in at the beginning consented, and those who came later bought stock the price of which reflected the corporation's tempered commitment to a profit objective. ...one thing that cannot survive is systematic efforts to fool participants (pp. 35–37).

Just as a firm ought not to fool its shareholders, it ought not to fool any of its business participants. It is incumbent on a firm to be clear about its purpose and its effects on others. It is to be accountable to every business participant.

### *Accountability*

We argued earlier that Business Participants must be accountable to others, even those from the past and in the future. Complex as that assertion may be, business leaders face another accountability challenge. Responsible for a set of processes and practices that quite clearly affect life on the planet, we need to consider other life on the planet. Humans share the earth with other animals, plants, and yes, the physical planet itself. Is business accountable to anyone or anything besides our human beings? We say yes. While we defined dignity in terms of the inherent worth of persons, we now wonder if non-human animals manifest any kind of dignity. Indeed, might other parts of the biosphere, forests, grasslands and coral reefs, possess their own singular form of inherent worth? We think the answer to both questions is yes, although we acknowledge the difficulty of justifying this "yes." A full justification lies beyond this paper's reach.

Still, take the animal kingdom. To be sure, animals may lack the ability to reason in complex ways; their lives are

<sup>21</sup> See ([https://www.linkedin.com/about-us?trk=hb\\_ft\\_about](https://www.linkedin.com/about-us?trk=hb_ft_about)) for a look at their mission and (<https://linkedinforgood.linkedin.com/>) for a look at their purpose.

<sup>22</sup> See (<https://www.bcorporation.net/>) for a current figure.

more tightly bound to the pursuit of simple interests such as food and survival than humans lives are. The theme of the inferiority of animals to humans is ubiquitous in history. *Genesis* portrays God as saying, “Have dominion over the fish of the sea, the birds of the air, and all the living things that crawl on the earth.” While these crawling living things may have simple interests, they nonetheless do have interests. And the satisfaction or denial of these interests, just as in the case of humans, creates both benefits and harms. Peter Singer, the philosopher best known for championing the rights of animals writes, “The argument for extending the principle of equality beyond our own species is simple. It amounts to no more than a clear understanding of the principle of equal consideration of interests” (Singer, 2011, p. 49). In his sweeping history of the human species, Harari (2015, p. 92) suggests that we should be ashamed by how we have handled our responsibility to the animal kingdom: “Ten thousand years ago, not more than a few million sheep, cattle, goats, boars and chickens lived in restricted Afro-Asian niches. Today the world contains about a billion sheep, a billion pigs, more than a billion cattle, and more than 25 billion chickens. . . . domesticated chickens and cattle may well be an evolutionary success story, but they are also among the most miserable creatures that ever lived. The domestication of animals was founded on a series of brutal practices that only became crueler with the passing of the centuries.”<sup>23</sup>

Hence, one might apply a version of the Dignity Threshold to the treatment of animals based on the simple analogy between human and animal interests. Indeed, Grandine and Deesing (2008) show us how we can treat animals with dignity, even as we raise them to eat.

No shortage of critics, prophets, and problem solvers work to alert us humans to our treatment of the earth itself. Founded in 1974, the Worldwatch Institute has been publishing its influential State of the World reports annually since 1984. Born in 2000 at Kofi Annan’s urging, the Millennium Ecosystem Assessment project works with scientists the world over to assess changes in our ecosystems and their effects on human well-being. They also imagine solutions to our problems. Recently, Pope Francis added his voice of concern, calling the world to action with the encyclical letter, *Laudato Si*.<sup>24</sup>

While talk of business’ triple bottom line (Elkington, 1998) may alert us to our responsibilities for life on the planet (and the planet itself), we do not yet know how to weigh or balance these many interests as we do business. Is there a “life-principle” that renders non-human life on the planet “morally considerable” (Goodpaster, 1978, p. 320)? Religious conviction notwithstanding, it is clear that we humans do have dominion over the earth. As Sanderson,

Jaiteh, Levy, Redford, Wannebo and Woolmer (2002, p. 902) pointed out, “The global extent of the human footprint suggests that humans are stewards of nature, whether we like it or not.” In this same vein, Hoffman and Jennings (2015, p. 10) recently took stock of our new “Anthropocene Era”; they concluded, “humans are now a primary operating element in the Earth’s ecosystems.” We agree with Kateb (2011, p. 116), “We must abandon the human prejudice that animals and the rest of nature exist solely for human use.” Business Participants and business scholars alike need to come to terms with this broad accountability challenge.

### Control

Our fundamental criterion for the control of Business is simple. At a minimum, we are to guard against any assault on a business participant’s dignity. At our best, we strive to enhance the participant’s dignity. This assurance of dignity applies to humans, and just maybe to other life on the planet, if not the planet itself. The implementation challenges are threefold: (1) Who is to effect this control? (2) Where will it happen? and (3) How will it happen?

*The locus of control.* Our understanding of the control of a single corporation gives us some purchase to understand how we might broadly control business. Moving from the micro to the macro, we can look to individuals in organizations to exhibit moral character and self-control (Cohen & Morse, 2014; Crossan, Mazutis, Seijts, & Gandz, 2013). Engaged in a process of “mutual monitoring” within a company, these individuals can hold each other to high standards (Fama & Jensen, 1983). We have already noted that firms may regulate their own behavior (Hauffer, 2001). Of course, a firm’s board of directors and product market competition itself also serve to keep a company operating efficiently and effectively. But if the corporation’s board cannot control the firm’s management (Bebchuk & Cohen, 2005) and if the market is uncompetitive (Giroud & Miller, 2011), then the market for corporate control serves as a bulwark against control failures (Manne, 1965).<sup>25</sup> Beyond that, firms are subject to activist and social movement pressure (King & Pearce, 2010). And of course, corporations are ultimately subject to government control. As Wickersham (1918, p. 206) pointed out over one hundred years ago, “No state can long endure, which does not preserve its supremacy over private combinations, whether in the garb of corporations, or otherwise.” Well-functioning governments are to weigh society’s competing interests and write laws to set wage floors, product liability standards, environmental health and safety standards, rules of competition, and more. Governments must have a clear eye on collective value and work to ensure its optimization.

One can imagine a world where corporations with a new understanding of their role in the world exert

<sup>23</sup> In a similar vein, Singer (2009) reviews what he calls (on p. 222) our “savage” treatment of animals from the pre-Christian period to today. See Chapter 5 for the review.

<sup>24</sup> See (<http://www.worldwatch.org/mission>) and (<http://www.millenniumassessment.org/en/About.html>) for an introduction to these organizations’ work and their reports. Pope Francis’ encyclical can be read here: ([http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco\\_20150524\\_encyclica-laudato-si.html](http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_encyclica-laudato-si.html))

<sup>25</sup> The market for corporate control, sometimes known as the takeover market, refers to a practice where outside managers compete for the opportunity to better lead a firm that they consider to be undervalued (Jensen and Ruback, 1983).

self-control in a realm of market competition, social movements, and government oversight to honor the dignity of business participants and create collective value. Calling attention to fundamental changes in the world of business and the corporation's changing role in that changing world, [Scherer and Palazzo \(2007, 2011\)](#) would likely agree. But if companies, government and civil society alike comprise business activity, then we also need to go further and discern how best to control government and the not-for-profit sector . . . and then consider how the three commingle to create the good society. There is much to be done. Along the way, we also need to consider the second big question, "What constitutes society?"

*One society or many.* We might think of society in term of nations. Perhaps the United States itself constitutes a "society."<sup>26</sup> Conducted every five years, the US Census Bureau counted 5.7 million firms and 90,056 local government entities in 2012 (in addition to the Federal government and the 50 state governments). The Internal Revenue Service counted over 1.44 million tax-exempt organizations in that year too.<sup>27</sup> Perhaps we can consider society to be the 314 million Americans who live with those 5.7 million firms, 1.4 million not-for-profit organizations, and over 90,000 government entities.<sup>28</sup> But then again, the United States is just one of the 193 member states in the United Nations. Are there 193 societies in the world? Maybe; maybe not. We also need to account for globalization, for the fact that the world is world is "flatter" than it has ever been ([Friedman, 2007](#)).

The current generation has borne witness to what [Feenstra \(1998\)](#) calls the integration of trade and disintegration of production in our global economy. Connections are made routinely between firms in markets and increasingly within firms as they operate across nation states. For example, the United Nations ([UNCTAD, 2009](#)) tells us that approximately 82,000 transnational corporations spanned the world with their 810,000 affiliate organizations just a few years ago. In many ways, the idea that a nation's borders bind society seems outdated. Perhaps it is best to consider business as it works in and for humanity.

Let us say that there are about 200 countries in the world (Greenland, Kosovo, and Taiwan, for example, are not members of the UN but each is seen by many as a country; Palestine and the Holy See are currently UN non-member states). Therefore, humanity might comprise the

7.3 billion people who live in a world of approximately 200 independent states.<sup>29</sup> What is the scale of business activity if we think in these terms? These 200 national governments and their hundreds of thousands of smaller state and local government entities monitor and control business activity in their borders. Can we estimate how many companies operate within these borders? This is a difficult assignment but still, we do have some idea. [Dun & Bradstreet \(2015\)](#), for example, currently has data in hand on 134,968,036 companies (from 235 countries). How many not-for-profits (NFPs) are there in the world? We do not know. With 1.44 million NFPs serving 314 million Americans, that 1:218 ratio, suggests that we might see 33 million NFPs in the world. On the other hand, the United Kingdom counted 161,266 voluntary organizations within its borders in 2014. With a population of over 63.5 million, that 1:394 ratio, suggests that there might be 18.3 million NFPs in the world. Consider South Africa. There are 139,482 non-profit organizations in their country today. A 1:384 ratio suggests that there might be 19 million NFPs in the world.<sup>30</sup> Having said that, let's imagine that these three countries are outliers. Moreover, we know that many of these NFPs operate on a global scale. Maybe there are far fewer NFPs in the world. But even if the ratio was 1:3840, we would still see 1.9 million NFPs. All we know for sure is that the number is huge and that the worldwide business, government and civil society relationships are extremely complex.

A theory of the firm does not really help us understand, much less control business at this level of analysis. Win or lose the stockholder vs. stakeholder debate, the debate itself seems to be off point. We need a theory of business and business success if we are to understand and guide business activity. Even in a world of 7.3 billion people, the control tenets of a theory of business may help us more than we might imagine. If every business participant is worthy of dignity, then we have a principle that can orient the governance and control of business activity the world over. Each decision maker should honor the dignity of those who affect and are affected by that decision maker's work. Diffuse that simple principle worldwide and the world of business will change dramatically.

Note that this attention to each decision maker's conduct is quite different from the current focus on radical transparency ([Tapscott & Ticoll, 2003](#)). To be sure, complete information can help external monitor's better control business. And yes, the act of compiling and preparing that information for external consumption can affect how a firm does business. Still, the conduct that helps optimize collective value may best be generated within a business organization as it conducts its business, and not from an external monitoring and control regime that apprises the visible markers of business activity.

<sup>26</sup> For example, [Jones and Felps' \(2013b\)](#) work to change a corporation's objective function is rooted in their quest to "to improve social welfare for the US society as a whole" (p. 350).

<sup>27</sup> These organizations work in ten broad areas: Arts, culture, and humanities; Education; Environment and animals; Health; Human services; International, foreign affairs; Public, societal Benefit; Religion related; Mutual/membership benefit; and Unknown, unclassified (<http://nccs.urban.org/classification/NTEE.cfm>).

<sup>28</sup> See (<http://www.census.gov/econ/subs/>) for a look at business operations, ([http://www2.census.gov/govs/cog/g12\\_org.pdf](http://www2.census.gov/govs/cog/g12_org.pdf)) for a look at government entities, and (<http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413277-The-Nonprofit-Sector-in-Brief-.PDF>) for a look at the NFP sector.

<sup>29</sup> See (<http://www.worldometers.info/world-population/>) for the current population of the world and any nation we discuss below, and (<http://www.un.org/en/members/#d>) for a list of the UN's member nations.

<sup>30</sup> See (<http://knowhownonprofit.org/basics/what-is-non-profit>) for a look at the UK's NFP sector and (<http://www.npo.gov.za/>) for a similar look at the NFP sector in South Africa.

In fact, unlimited disclosure may even have unintended negative effects (Hermalin & Weisbach, 2012). We believe that the path to optimized collective value begins with an endorsement of the Dignity Threshold.

With the scale of business activity as large as it is, we are under no illusion that this diffusion process will be simple. That said, the idea and importance of dignity is hardly unknown. It has been with us for over two thousand years. It has been enshrined in a global human rights declaration and even in some national laws. Combine that fact with the widespread unease we chronicled at the beginning of this paper, and we just may find ourselves at a propitious moment in history to launch what might called a dignitarian social movement in business. This kind of transformation of business practice will not happen on its own. It may take a social movement.

*A social movement.* A normative theory carries action implications. It may well be that those who resonate with these ideas might become what Sunstein (1996, p. 919) called “norm entrepreneurs,” those who work to imagine a new future and create the “norm bandwagons” and “norm cascades” that bring it to life. Academics can certainly play a role by developing the theory that undergirds the new norm and of course, work to make a better world (Walsh, 2015). Sunstein (1996, p. 929) nicely articulated the norm entrepreneurs’ assignment. Theory in hand, their work begins by signaling a personal commitment to change. They also need to find fellow travelers to refine their ideas and help bring them to life. Such coalition members may not be hard to find. Lagon and Arend (2014b), for example, recently articulated a “who, what, when, where, why and how” agenda for those working to bring a commitment to human dignity to our international institutions. With business as the largest transnational institution on the world stage today, our colleagues in public policy might welcome commitments and contributions from those in the world of business. Sunstein goes on to argue that bringing new ideas to life will involve a focus on costs and benefits. Norm entrepreneurs need to show that ignoring the Dignity Threshold seems to be – or is – less costly than adhering to it. They must also show that compliance with this new norm seems to be – or in fact, is – more beneficial than operating without it. A cost/benefit calculation, of course, implicates a consideration of just what constitutes a cost and a benefit; indeed, it calls the question of what constitutes Business Success.

#### *Success*

Business Success is marked optimized Collective Value, optimized subject to clearing the Dignity Threshold. While we know what we want to see from business in a conceptual sense, some may ask whether we will know it when we see it. They will wonder whether we can measure Optimized Collective Value. How can we know if decision makers in companies, government, and the not-for-profit sector recognize the inherent worth of every Business Participant? Can we know whether they lead with practical wisdom (phronesis)? How will we know whether their decisions meet the Dignity Threshold? These are mighty challenges. There are two broad issues to consider as we

move forward. The first is that we need to consider the relationship between the measurement of success and success itself. Second, we need to consider the dynamic nature of the theory, if not any intervention born of the theory. In particular, we need to consider how to handle failure on the road to success.

*Success and its measurement.* We need not look far for measurement inspiration. Diener and Seligman’s (2004) quest to create an economy of well-being caught our attention. We took a careful look at their call for a national well-being index. They believe that a multimillion-dollar investment in an annual national survey would bring great benefit to the American public. They rely on what they call the “psychological Heisenberg principle” to make their case:

[W]hat a society measures will in turn influence the things that it seeks. . . . If a society systematically and regularly assesses well-being, people will focus more of their attention on well-being, and learn more about its causes (2004, p. 23).

We believe that the reverse of this principle also holds. If society calls more and more attention to dignity and collective value in business, then society will in time move to assess them. Note too that any effort to bring Sunstein’s (1996) cost/benefit approach to social movement creation cannot move forward absent a dignity initiative to investigate if not celebrate. We are impressed and inspired by the United Kingdom’s Dignity in Care initiative. Launched in November 2006, the country’s National Dignity Council has been administering the program ever since. Their webpage succinctly captures their aspirations:

The campaign’s core values are about having dignity in our hearts minds and actions, changing the culture of care services and placing a greater emphasis on improving the quality of care and the experience of citizens using services including NHS [National Health Service] hospitals, community services, care homes and home support services ([http://www.dignityincare.org.uk/About/Dignity\\_in\\_Care\\_campaign/](http://www.dignityincare.org.uk/About/Dignity_in_Care_campaign/)).

They currently count 58,000 “dignity champions” who work to ensure that people are treated in a respectful and dignified manner when they use Britain’s health and social services. Sustained in part by a host of “dignity champion networks,” these champions and sympathetic health care providers call nationwide attention to their work every year in an annual “dignity action day.” Perhaps a similarly inspired “Dignity in Business” movement will help bring dignity to the world of business and at the same time serve as a catalyst to measure Business Success. That certainly seems to be a worthy aspiration.

While we know of no dedicated effort to collect data on the dignified treatment of Business Participants, we do know that some in the world do collect the kinds of data that Diener and Seligman (2004) desire. More than 20 European countries came together in 2002 to sponsor a large biennial cross-national survey. The European Social Survey reports data on personal and societal well-being, and even some of the kinds of issues we might envision in a

worldwide Dignity in Business survey (e.g., treatment by, and trust, in various institutions of government).<sup>31</sup> The existence of this international survey effort gives us hope that we might one day see an international Dignity in Business survey effort.<sup>32</sup> We can imagine a role for universities in this effort. The University of Chicago with its National Opinion Research Center and the University of Michigan with its Institute for Social Research, for example, might collaborate with other universities in the world to launch such a global survey effort.

*The road to business success.* A normative theory is defined by its aspirations. Our aspirations here are very high. After all, we invoke a world where collective value is optimized, where the dignity of every business participant is recognized and honored, where every act and decision in the world of business clears the Dignity Threshold. We also imagine a global survey effort to appraise and enable our movement toward such optimized collective value. Two fundamental qualities define this aspiration. First, with business as our unit of analysis, we are well aware that our unit of analysis is as macro as can be in our field. On the other hand, the mechanism that fuels this normative theory is quite micro. Business participants' everyday acts of dignity undergird the creation of collective value. This micro focus may be at once the theory's strength and its limitation. The strength is that we do not need to imagine some kind of supranational governance and control regime to better the world. Indeed, some would see an omnipotent and global regulatory regime as more suffocating than ennobling. All we ask is that each business participant treats each other with dignity, all the while respecting and supporting business's broader purpose. Therein lays the limitation. Not every business participant in a world of 7.3 billion people will get the message and not everyone who does will find it easy to live such a life. In fact, history shows us that our species is prone to violence (Pinker, 2011), perhaps the ultimate act of indignity.

How can we stay on the road to Business Success? To be sure, with even the best of intentions, business participants will have trouble. Haslam and Loughnan (2014) tell us that we are prone to dehumanize each other. We also know that a record of moral behavior in no way guarantees that we will treat the next person we encounter in a like fashion. Indeed, the research on moral licensing (Monen

and Miller, 2001) tells us that we can even expect that moral person to behave immorally or unethically that next time (Blanken, van de Ven, & Zeelenberg, 2015; Merritt, Effron, & Monin, 2010).<sup>33</sup> It is not easy to treat every person we encounter with dignity. Moreover, Hollensbe, Wookey, Hickey, George, and Nichols, (2014, p. 1230) point out a peril unique to organizational life. We often encounter each other not as individuals but as a part of a collective in an organization. They write, "each person deserves human dignity as a *who*, not a *what*, as a *someone*, not a *something*, yet much of the language of business subtly objectifies people generally as "human capital" or "human resources." The problem is that we can only know so many people by name. Leaders of large entities, those who by necessity manage "human resources," need to remember that each person in that collective is an individual worthy of dignity. We need to keep our common humanity in front of mind as we encounter each other.

The road to Business Success is likely to be a bumpy one. We can vow to treat others with dignity but it will be hard to walk that talk. Indeed, social psychological research tells us just how hard it is to exert self-control in our lives (Baumeister & Heatherton, 1996; De Ridder, Lensvelt-Mulders, Finkenauer, Stok, & Baumeister, 2012). Envisioning a social movement to bring a fundamental appreciation of dignity to the world of business, this movement should also work to support business participants in their avowed efforts to treat each other with dignity. And when we inevitably fall short, all we can do is practice restorative justice. We forgive each other and strive to do better the next time (Aquino, Tripp, & Bies, 2006; Goodstein & Aquino, 2010). In short, we can handle the indignities of life in the same way we handle the sometimes-painful legacies our predecessors left us. We acknowledge them, learn from them, forgive others (and ourselves if need be), and press forward in pursuit of the good.

## Conclusion

Our goal has been to address the composition fallacy we discovered in the scholarly world of corporate governance. Recognizing that no theory of the firm can serve us well when we attempt to understand the place of business in society, we developed what we hope will be the beginnings of a theory of business. The theory is both empirical and normative. We developed the conceptual building blocks for such a theory and then began to specify the mechanisms that link them. To say that a theory of business must account for the purpose of business is one thing, it is something else entirely to articulate just what that purpose is. We tried to step up to that challenge. Doing so, we created a normative theory. We can now answer the riddle we posed at the paper's beginning: "Law is to justice, as medicine is to health, as business is to optimized collective value."

<sup>31</sup> See (<http://www.europeansocialsurvey.org/about/index.html>) for an overview of the survey effort and ([http://www.europeansocialsurvey.org/docs/findings/ESS6\\_toplines\\_issue\\_5\\_personal\\_and\\_social\\_wellbeing.pdf](http://www.europeansocialsurvey.org/docs/findings/ESS6_toplines_issue_5_personal_and_social_wellbeing.pdf)) for a look at their efforts in the area of personal and societal well-being. We should point out that Australia and the United Kingdom each alone collect the kinds of index data that Diener and Seligman (2004) desire (see Cummins, Eckersley, Pallant, Van Vugt, & Misajon, 2003; Self, Thomas, & Randall, 2012 for some discussion of this work). Kahneman and Krueger (2003) believe we could see such a survey effort in the US one day.

<sup>32</sup> The Porter and Stern (2015) effort that we mentioned earlier holds promise. Using publicly available data (Stern, Wares, & Orzell, 2015, p. 24), their ambitious Social Progress Imperative is very alert to people's rights and freedoms the world over. Perhaps as their effort gains steam, they can collaborate with others to collect the kinds of dignity data the world so needs.

<sup>33</sup> We see a similar surprise at the firm level of analysis. In a paper entitled "Why 'Good' Firms do Bad Things," Mishina, Dykes, Block, and Pollock (2010) showed us that the most successful firms that are the ones most prone to illegal behavior.

Our project answers Brief's (2000) provocative question, "Whom shall we serve?" It may seem quixotic but we are trying to serve humanity here. In doing so, we are responding to Tsui's (2013) call to create socially responsible scholarship. In Tsui's (2013, p. 381) view, such scholarship both seeks truth and attempts to improve the human condition. She quoted Einstein as she identified the second criterion. In Einstein's mind, that second criterion is primary: "Concern for making life better for ordinary humans must be the chief objective of science" (Tsui, 2013, p. 380).

We admit that the phrase "optimized collective value" does not roll off the tongue in the same way that the words "justice" and "health" do. If forced to sum up the phrase in a word, we would choose the word "prosperity." But we would do so with a caveat. The definition of prosperity must be an expansive one. Some view prosperity as simple financial well-being. We are interested in a special kind of well-being, one that honors the dignity of those who affect and are affected by the creation of that wealth. We are interested in the kind of well-being that reflects a world of business where its focal and contextual purposes are met.

We call on our colleagues to refine and extend these ideas. Look at our definitions, propositions, and open questions. Have we overstated, understated, misstated or overlooked anything? We have some awareness of what we do not know. Therefore, we ask our colleagues in the arts and sciences (e.g., anthropologists, economists, philosophers, political scientists, psychologists, sociologists, and more) and the professional schools (e.g., business, law, public health, public policy, and others) to help us better appreciate how business, government and civil society can work together for the pursuit of collective value.

Assuming that these ideas do have some appeal, we need help to bring our normative ideas to life. How can we promote dignity for every Business Participant? We will need to find ways to measure Business Success at the same time that we look for ways to promote it. Great Britain's Dignity in Care initiative and the international effort to create and administer the European Social Survey inspire us on both dimensions. Our dream may not be a pipe dream.

Still, we know that these efforts will take time. Years ago, Whetton (1989) asked the question, "What constitutes a theoretical contribution?" He used the six journalists' questions to answer his own question – and added one, the "So what?" question. That last question looms large. This project reminds us that legacy matters. Our fondest hope is that future generations will continue to imagine and work to create a world of business that honors the dignity of those who affect and are affected by its activity.

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