Running Head:

Behavioural Ethical and Economic Study of Quaker Employers

Title:

Contrasting the Behavioural Business Ethics Approach and the Institutional Economic Approach to Business Ethics: Insights From the Study of Quaker Employers

Section for review:

Philosophical foundations / Economics & Business Ethics

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Abstract

The paper suggests that in a modern context, where value pluralism is a prevailing and possibly even ethically desirable interaction condition, institutional economics provides a more viable business ethics than behavioural business ethics, such as Kantiansim or religious ethics. The paper explains how the institutional economic approach to business ethics analyses morality with regard to an *interaction* process, and favours *non-behavioural, situational* intervention with *incentive structures* and with *capital exchange*. The paper argues that this approach may have to be prioritised over behavioural business ethics which tends to analyse morality at the level of the *individual* and which favours *behavioural* intervention with the individual's *value, norm and belief system*, e.g. through ethical pedagogy, communicative techniques, etc. Quaker ethics is taken as an example of behavioural ethics. The paper concludes that through the conceptual grounding of behavioural ethics in the economic approach, theoretical and practical limitations of behavioural ethics as encountered in a modern context can be relaxed. Probably only then can behavioural ethics still contribute to raising moral standards in interactions amongst the members (stakeholders) of a single firm, and equally, amongst (the stakeholders of) different firms.

Keywords:

Behavioural Approaches to Business Ethics; Economics & Business Ethics; Pluralism; Quaker Industrialists; Stakeholder Theory.

Contrasting the Behavioural Business Ethics Approach and the Institutional Economic Approach to Business Ethics: Insights From the Study of Quaker Employers

> [T]he language of morality is in the ... state of grave disorder ... What we possess, if this view is true, are the fragments of a conceptual scheme, parts which now lack those contexts from which their significance derived. ... We possess indeed simulacra of morality, we continue to use many of the key expressions. But we have – very largely, if not entirely – lost our comprehension, both theoretical and practical, or morality. ... [W]e are all already in a state so disastrous that there are no large remedies for it.
>
> (A. MacIntyre, *After Virtue*, 1985, pp. 2, 5)

The key thesis of this paper is that an institutional business ethics that is informed by economics, especially the so-called New Institutional Economics (as explained later), is preferable to behavioural ethics for ensuring high moral standards in business interactions. This is so because, as a guide to social interaction, behavioural ethics, even an institutionally oriented one, depends upon like-mindedness of interacting agents in order for business ethics to prosper; for instance, Donaldson and Dunfee's (1999) project of institutional, behavioural ethics here conceptualizes 'social ties that bind' (Similarly Osterhout et al., 2006 and their project of a contractualist business ethics). However, the modern condition is one in which like-mindedness is scarce, as reflected by interaction conditions of value pluralism, ethnic diversity, etc. One way to view this is as a problem to be overcome – by constructing and promoting like-mindedness through arguing (Donaldson and Dunfee, similarly Rawls) or otherwise talking away (Habermas) moral disagreement. Another way to view this is as a constraint on institutional design – adopting social norms less dependent for their success upon like-mindedness and abandoning norms more dependent on like-mindedness. The condition of modernity is then endorsed. The paper favours this latter approach. In this respect, the paper fundamentally differs from behavioural, institutional business ethics which at least facially may be focused on the institutional – in a behavioural manner, such as social ties that bind or integrative social contracts (e.g. Donaldson and Dunfee, 1999; similarly, Oosterhout et al., 2006). Where the institutional analysis of this paper departs from these theorists is in taking seriously moral disagreement. For Kantian stakeholder theorists and social contractarians within business ethics, moral disagreement is shallow and may be dissolved through institutions promoting public, social reason. In contrast, for the present study, moral disagreement and value diversity are deep and the road to improvement is to design economic institutions that facilitate social interactions while leaving moral disagreement intact. That is something the New Institutional Economics can contribute to business ethics research and to the practice of business ethics and that behavioural business ethics, even institutionally focused one, cannot.

The means by which the key thesis of the paper is established and argued for is the analysis and contrasting of how behavioural business ethics and an economic approach to business ethics differently conceptualise questions of morality – simply 'defined' questions of 'doing good in social behaviour'. And this analysis is primarily conducted through a historic case study of British Quaker employers and their failing attempts to implement a behavioural business ethics.

The mainstream in business ethics research and business ethics consultancy largely takes a behavioural approach to assessing questions of corporate morality, either an individualistic behavioural stance or an institutional, behavioural one. Theoretical research and the resulting consultancy are grounded in behavioural ethics in the tradition of Aristotelian virtue ethics, Kantian stakeholder ethics, or religious ethics. Quaker ethics is a good example of this tradition. Quaker employers like Cadbury or Rowntree in 19th- and 20th-century Britain attempted to fully implement this ethics in a business context.

Analytically and practically, behavioural ethics narrowly handles questions of morality at the level of the individual: If an ethical problem occurs, this is theoretically conceptualised as the 'human condition', e.g. deficits in virtuous character traits, a lack of acceptance of moral duties, a lacking internalisation of religious values by the individual, etc. In order to practically solve an ethical problem, the strengthening of the individual's ethical value, norm and belief system (of 'behavioural institutions') is recommended. A social, institutional dimension can show here up, too. At many business schools, behaviourally oriented business ethics seminars and courses try to teach managers and prospective managers proper behavioural ethical conduct, aiming to (re)-moralize the behaviour of the individual in order to do away with weak moral predispositions and ensure moral like-mindedness (e.g. Collins, 2000; von Dran et al., 2001; Hill and Stewart, 1999; Murphy, 1998).

At least implicitly, already Mandeville and Adam Smith advocated an economic approach to business ethics. Regarding its very nature, they proposed and understood the economic approach as an alternative ethics to behavioural ethics. Hayek (1960, 1976), Buchanan (1975, 1987a), and Friedman (1970) clearly sensed this, too, as did Homann's economic research on business ethics, interpreted as 'incentive ethics' (Homann, 1997, 1999; see also Wagner-Tsukamoto 2005, 2007b). In this tradition of an economics approach to ethics, the present paper develops a critical perspective on behavioural business ethics, suggesting that the (institutional) economic approach may have to be prioritised over behavioural business ethics in order to promote business ethics.

Issues of practical intervention in particular reveal sharp differences between the institutional economic approach and a behavioural approach to ethics. Behavioural ethics, including behavioural economic research on ethics (e.g. Frank, 1988, 2003; Margolis, 1982; Simon 1993) and behavioural, institutional business ethics, intervene practically with institutions that are interpreted as the internalised value, norm and belief structures of the individual ('behavioural institutions'). The target is the human condition in order to solve social, ethical problems; the approach to practical intervention is of a therapeutic, pedagogic, communicative, habituating nature, (re)-educating, counselling, appealing, and preaching to individuals in order to make them behave 'better'; the behavioural (e.g. 'sociological', 'psychological', 'theological') effectiveness of human behaviour is to be improved (See, for instance, Argyris, 1992; Fort, 2000; Habermas, 1988, 1990; Hill and Stewart, 1999; Key, 1997; Kieser, 1993, pp. 113-23; Lampe, 1997; Murphy, 1998; Oosterhout et al, 2006; Schanz, 1982, p. 72; Siu et al., 2000; Warner, 1994, p. 1161). Moral like-mindedness among agents or stakeholders is the intervention goal. In stark contrast, institutional economics intervenes with institutions understood as incentive structures – 'governance structures,' as Williamson (1975, 1985) in the tradition of the New Institutional Economics outlined. Thus, non-behavioural institutions or situational conditions (the 'rules of the game') are focused on in order to handle problems in social behaviour. Examples are employment contracts, salary systems, promotion systems, bonus allocation systems of the firm, etc.

Significant differences can be expected between an economic and a behavioural research program on business ethics: firstly, regarding the *theoretical conceptualisation* of morality and institutions for enacting morality in social behaviour; secondly, regarding favoured avenues for *practically intervening* with human behaviour in order to solve moral problems and the *practical success* a research program on (business) ethics enjoys; and thirdly, – which, however, is not further explored in this paper –, regarding *analytical tools and methods* applied in an ethical debate.

The key thesis of this paper is that, unless subsumed under an economic approach to ethics, the success of behavioural business ethics to solve the moral problems of a firm is likely to be in doubt. MacIntyre identified practical problems for virtue ethics (as quoted above) and this is confirmed for many behavioural business ethics programs. For instance, Izzo (2000) and Seshadri et al. (1997) found that behavioural business ethics programs frequently fail. However, as much as practical failure was diagnosed and acknowledged, this disappointed and mystified Izzo (2000) and Seshadri et al. (1997). Here, the present paper moves a step ahead: It explores, through institutional economic analysis, reasons why behavioural business ethics is difficult to implement in certain – 'modern' – contexts. The key thesis is that the firm (its managers and stakeholders) could only be expected to act morally in a behavioural ethical sense if this were viable in the face of value pluralism, or put in a different way, in the face of self-interested choice, as it is institutionally imposed on firms in a market economy, for instance, through business laws which protect competition among firms or which subject unprofitable firms to bankruptcy proceedings and are thus eliminated from the market place.

To develop my arguments I draw on various sources from the contemporary business ethics literature but also on one very insightful historic case study, namely the attempt of British Quaker firms like Cadbury and Rowntree to implement certain religious beliefs in business practice in the decades from 1900 to 1940. Their attempt partly succeeded but partly failed. This mystified Quaker employers. The paper here sheds new light on reasons why behavioural ethics sometimes succeeds and sometimes fails in a modern business context by reconstructing behavioural ethical intervention in economic terms.

In the following, the first section outlines key theoretical concepts of behavioural ethics and contrasts them with the concepts of the institutional economic approach to ethics. The second section explores the practical limits of behavioural ethics in relation to the condition of modernity, namely how value pluralism characterizes many social arenas of society and the institutional setting of the market economy in particular. The final section concludes the paper.

Theoretical Limitations of Behavioural Ethics: The Search for Individual Goodness and Social Harmony in Business Behaviour

The analysis of the fragility of morality in social behaviour is, in one form or another, the starting point of most ethical research. An institutional, social focus is apparent, at least in the background, for most moral philosophy and political economy. Hobbes' *Leviathan* (especially chapters 13-15) here discussed the potential 'war of all'. Much earlier Greek philosophy and biblical thought proceeded similarly (See Wagner-Tsukamoto, 2001, 2003, 2007a). As much as a behavioural approach and an economic approach to ethics are likely to share such a starting point, they differ regarding their respective understanding of what causes morality to be fragile in social behaviour, and of practical avenues for raising levels of morality in social behaviour. In the following, behavioural ethics' conceptualisation of morality is discussed, especially with regard to what makes morality fragile. Furthermore, its understanding of *institutions* is compared with the one of institutional economics. Generally speaking, the idea of the institution is understood as social structures which order social interactions and resolve problems in organisational behaviour. Institutions are'… systems of established and prevalent social rules that structure social interactions.' (Hodgson, 2006, p. 2; North, 1990, pp. 3-5) They reflect the 'rules of the game' and have to be strictly distinguished from the 'moves of the games' made by agents and even more so from the agents themselves (Hodgson, 2006, p. 9). As explained further below, the kind of social rules this study is especially interested in are *economic institutions* which could be said to be '… prevailing rule structures that provide incentives and constraints for individual action.' (Hodgson, 2006, p. 6)

A Behavioural Understanding of Morality and of Behavioural Institutions for Enacting Morality

In the theoretical perspective, the individual is focused on by behavioural ethics. The fragility of morality is analysed as a problem of human nature (e.g. Gosling, 1973, p. 1 on virtue ethics; see also the behavioural literature quoted above). In the same way, institutions are conceptualised as *behavioural institutions*: as internalised, intrinsically enacted cognitive, affective and emotive structures of the individual, which reflect an individual's values, norms and beliefs regarding good social conduct. Such internalised structures are meant to (pre)-dispose the individual towards socially desirable behaviour. Morality is thus conceptualised by focusing on the behavioural – psychological, sociological, theological – 'constitution' of the individual. Behavioural economics here targets the economic 'constitution' of the individual, including ethical pay-offs in the utility function of the individual (e.g. Margolis, 1982). In the social perspective, institutional ordering comes here as the intervention with the human condition by means of influencing behavioural manifestations of values, norms and beliefs through '... purposive investment by authorities such as the state or the church [or a firm] in propaganda with the intention of creating new sets of values in the citizens.' (Eggertson, 1993, p. 27) This is done in order to facilitate *social* interactions. Donaldson and Dunfee (1999) similarly speak of integrative social contracts and social ties that bind interacting agents (See also Fort, 2000).

For religious ethics, such as the Quaker ethics, this approach can be spelled out as:

> '[T]he Quaker precept [was] that it is the spirit in which one individual approaches the other which determines the harmony of their relationships. ... Much was seen [by the Quakers] to depend on the 'goodness' of individuals; in other words on their psychology – what is in the mind.' (Child, 1964, p. 305)

The generation of 'trust' is here a key issue, as the Quaker literature generally stresses (e.g. Vernon, 1958; Windsor, 1980). Specific principles of Quaker ethics, as identified by Child (1964), describe ethical ideals regarding good individual and social behaviour:

(1) a dislike of one person profiting at the expense of another;
(2) the promotion of the value of hard work;
(3) the advocacy of egalitarianism in social behaviour;
(4) a dislike of conflict.

Once internalised, these precepts of Quaker ethics were expected to make the individual act – on grounds of internalised 'correct personal spirit' (Child, 1964, p. 296) – in a moral manner, specifically in an altruistic, egalitarian, pacifistic, compassionate manner.

Thus, through principles that promote such behavioural ethical ideals, behavioural ethics sets out what kind of values, norms and beliefs the good person should cherish and what good social behaviour should look like.[1] In the social perspective, morality is expected to result from the simple aggregation of individually good behaviour, morality being interpreted as social harmony, trust, equality or peace and being grounded in the concept of a value consensus. This approach to behavioural ethics can be related to concepts of behavioural contracting, e.g. 'social contracting'[2] or 'psychological contracting' (Schein, 1980). If successful, behavioural contracting yields homogeneous values, norms, and beliefs amongst individuals – the value consensus – which behavioural ethics relies upon for effectively solving moral problems. Moral disagreement among interacting agents is thus eliminated and like-mindedness is ensured. Ethical research in the tradition of economic sociology (e.g. Etzioni, 1988, p. xii) or behavioural economics (March 1978; Sen, 1990; Simon, 1993, p. 159-60, 1976, p. xxxv, 102-3, 242; in certain respects, even Williamson, 1998, p. 15-17, 1985, p. 391) is similar. Equally, institutional, social contractarians (e.g. Donaldson and Dunfee, 1999) may be 'institutional' in nature but their approach in large degrees draws on concepts of *behavioural* institutions ('social ties that bind') rather than the *non-behavioural*, economic institutions the present paper has in mind, as discussed in the following.

An Alternative Program: An Economic Conceptualisation of Morality and of Institutions for Enacting Morality

In contrast to the behavioural approach, the economic approach to ethics does not necessarily link the idea of morality to ideals of social harmony, equality or peace as such but interprets and qualifies them in economics terms. With regard to a single interaction, e.g. a two-person interaction, institutional economics reconstructs the behavioural ideal of social harmony through the ideal of realizing mutual benefits for the agents involved in an interaction. A positive, non-zero-sum model of social interactions is here implied: Mutuality of gains means that one person's gains do not come at the expense of another person. The idea of mutuality of gains is in this respect compatible and reconcilable with the principles of behavioural ethics, such as Quaker ethics. Only in zero-sum games, no win-win outcomes are feasible, and only then does one person's gains come at the expense of others. From this it already becomes clear that the idea of individual gain as such is not in conflict with business ethics, as explicitly or implicitly implied by many behavioural (business) ethics researchers.[3] In positive, non-zero-sum games, mutuality of gains emerges as interaction outcome 'already' on grounds of self-interested choice.[4] Individual goodness, understood as altruistic, egalitarian, or pacifist behaviour, is not required for morality, here understood as mutuality of gains, to prosper.

As much as a behavioural ideal of social harmony can be so reconstructed in economics terms, limits of an economic reconstruction of a behavioural understanding of morality are reached for zero-sum interactions. In an economic approach to business ethics, even win-lose outcomes of so-called zero-sum interactions and loss-loss outcomes of non-zero-sum interactions are under certain circumstances morally desired and approved (See Figure 1). That means, not only social harmony (in economic speak: pareto-superior, win-win outcomes) but also a breakdown of social harmony (pareto-inferior, win-loss or loss-loss interaction outcomes) can be judged by economics as ethical, depending whether a break-down of social harmony at the interaction level contributes to public good at a macro-level of society (ideally: the international community). Equally, social harmony (and mutuality of gains) at the level of the interaction may be judged as unethical by economics, namely when society loses as a result thereof. Figure 1 illustrates for firm–firm interactions this ethically ambivalent nature of social harmony (pareto-superiority; cooperative, win-win outcomes of firm-form interactions) and a break-down of social harmony (pareto-inferiority; competitive, win-lose outcomes of firm-firm interactions) and how this reflects on economics' understanding of morality.[5]

Insert Figure 1 about here

For example, even for zero-sum interactions, such as competitive processes in a market economy and outcomes like bankruptcy of some firms, which may imply loss and hardship for certain stakeholders, an economic approach to business ethics would not necessarily diagnose a moral problem but underwrite such interactions *on moral grounds* – if society at large benefited from them, and if institutional rules, such as bankruptcy laws, which organized such interactions withstood ethical scrutiny. In this connection, 'ethical scrutiny' is again interpreted in economics terms regarding the capability of institutional rules to generate public good. Equally, cooperative win-win outcomes are not necessarily always viewed as ethically desirable; they are rejected if society at large loses as a result of cooperation at the interaction level (e.g. a monopoly situation). In contrast, behavioural ethics tends to generally view cooperative win-win outcomes in social interactions as ethically desirable and win-lose outcomes as ethically undesirable. In this respect, behavioural ethics has a more simplistic understanding of business ethics than economics: It is generally supportive of cooperation and adverse to competition (non-cooperation), not making the differentiations for socially acceptable cooperation versus socially unacceptable cooperation, on the one hand, and socially acceptable competition versus socially unacceptable competition, on the other, as illustrated by Figure 1. These differentiations imply (1) that sometimes, at least from an economic, societal point of view, competition (non-cooperation) among individual agents – even if this means substantial losses to one party – may be socially highly desirable, and (2) that sometimes, at least from an economic, societal point of view, cooperation among individual agents – even if this benefits all agents – may be socially highly undesirable from an economic position (See also Wagner-Tsukamoto, 2005).

In relation to this different and more complex understanding of morality as compared with behavioural ethics, economics differently conceptualises institutions that enact morality in social behaviour: *Incentive structures* reflect economics' understanding of institutions, as outlined by the New Institutional Economics (Coase, 1984, 1992; Heyne, 1999; Homann 1997, 1999; Homann and Suchanek, 2000; Luetge, 2005; North, 1993a, 1993b; Wagner-

Tsukamoto, 2003, 2007a; Williamson, 1975, 1985). Moral problems are examined as a non-behavioural, situational condition of defective incentive structures. From a practical, normative perspective this implies that, if cooperation (competition) at the interaction level is viewed as morally desirable from the point of view of society, incentive structures are to be set up to 'equilibrate' (disequilibrate) the self-interests of interacting choice-makers by allocating certain benefits and losses to the individual's different choice options (Williamson, 1985, p. 84). In this way, it is to be ensured that cooperation and competition establish themselves at the interaction level on grounds of self-interested choice. An incentive logic is here to make individuals cooperate (not cooperate) in social interactions. Theoretically and practically, social problems are therefore *not* treated as the human condition, as a matter of inducing 'correct personal spirit' directly in the behavioural 'moves of the game' but as a matter of enacting morality through properly designed incentive rules. As a result, this approach makes small demands on like-mindedness and moral agreement among agents for cooperation to succeed.

Apparently, a behavioural understanding of morality and of institutions for enacting morality, as cherished by Quaker ethics, is thus at least partly incompatible with an economic reconstruction. This hints at the theoretical limitations of behavioural concepts for economic research on ethics, and inversely, it hints at the theoretical limitations of economic concepts for behavioural research on ethics. In this respect, the interesting question is which type of theoretical limitation is the more restrictive for understanding and solving problems of doing good in corporate behaviour. The next section argues that in social contexts in which the condition of modernity arises behavioural ethics, including institutionally oriented ones, is outperformed by an economic research program on ethics.

Practical Limitations of a Behavioural Business Ethics: Encountering Modernity

The subsequent discussion argues that probably only under very specific – 'pre-modern' – conditions, as they can be derived, for instance, from a historic case study of Victorian Britain (Himmelfarb, 1995), or from a contemporary case study of the Amish society in the USA, can behavioural ethics ensure the doing of good in social behaviour. However, when *modernity* – simply put, value pluralism, ethnic diversity, etc. – is encountered in social behaviour, behavioural ethics is likely to be not only ineffective and inefficient but even qualitatively inferior in terms of its concept of morality when compared with an economic approach to ethics. The discussion proceeds in two steps: Sub-section one interprets the condition of modernity, examining why and how value pluralism poses a theoretical and practical problem for behavioural ethics. Sub-section two examines the specific dilemmas religious managers face when encountering modernity.

The Condition of Modernity

The ‘condition of modernity’ can be diagnosed as the presence of value pluralism in social behaviour, or differently put, as the absence of a value, norm and belief consensus. Moral disagreement looms here as an interaction condition. Individuals then hold diverse, low or even no behavioural (pre)-dispositions regarding the doing of good in social behaviour (See Cochran, 1957, p. 128, 1972, p. 118; Gerecke, 1997, p. 9-20; Luhmann, 1988, p. 102-3; MacIntyre, 1985, p. 1-5; Williams, 1988, p. 12). In the same way, the lost context to which leading moral philosophers and social scientists frequently refer when discussing behavioural ethics (e.g. Gambetta, 1988; Homann, 1990, 1997; Luhmann, 1988, 1984; MacIntyre, 1985; Popper, 1957; Williams, 1988, 1985) can be interpreted as the *pre-modern* context in which a value consensus, like mindedness and moral agreement in social interactions could be easily maintained. It is not generally questioned by this paper that in certain social contexts, especially tribal ones, the condition of modernity may be absent or could be easily remedied. However, a value-homogeneous context probably only survives in contemporary, industrialized, globalizing society in isolated instances, e.g. the Amish society. It can even be suggested that it widely disappeared as early as in biblical times, as reflected by the social problems discussed in the Bible for inter-tribal scenarios and even for intra-tribal ones (See Wagner-Tsukamoto, 2001, 2003). Still, behavioural research somewhat nostalgically laments the condition of modernity, clinging on to the ideal of the value consensus and the combating of value pluralism as a prime avenue for solving social problems in modern society (e.g.

Collins, 2000; Etzioni, 1988; 1991; Küng, 1999; also Cima and Schubeck, 2001, when reviewing Catholic communitarianism).

For the firm, the onset of modernity could be first observed regarding interactions with external stakeholders (e.g. competitors, customers, suppliers). But from the late 19th century onwards and in the context of progressing industrialization, interactions 'within' the firm – amongst the internal stakeholders of the firm, such as managers, shareholders, employees, etc. – were caught up by modernity, too (Rathenau, 1918, p. 143; similarly Berle and Means, 1932; Vernon, 1958, p. 93, also chapters 11-19). Documented as early as in Taylor's studies of Scientific Management (See Wagner-Tsukamoto, 2003, 2007a), a different type of firm emerged as compared to the workshop or small family business: Ethnic diversity or heterogeneity began to arise in the organizational behaviour within a firm, and hierarchical structures, which induced competition even in intra-firm interactions, were installed (See also sub-section two below).

In modern interaction contexts such as the 'city' or the 'nation' and more so with regard to the 'multi-cultural society', the 'multinational enterprise', or the 'international community', where value pluralism and moral disagreement nearly always arise (and could even be ethically argued for; see below), the approach of behavioural ethics is likely to be theoretically and practically exhausted. Then, it is especially the *sharing* of perceptions of morality amongst interacting agents that yields ineffectiveness and inefficiency problems for behavioural ethics.[6] If diverse values, norms and beliefs are held by interacting individuals, intrinsic behavioural 'psychological', 'sociological', 'theological' contracting succumbs. The intrinsic behavioural self-sanctioning of violations of moral precepts through perceptions of guilt, a nagging conscience, etc. and social sanctions of peer group pressure, opinion leadership or social ostracism fail to work. Those who do not share a certain ethical code do not even realize that they have broken a behavioural contract and hence should suffer under conflicts of conscience or perceptions of guilt. Costs for remedying this problem in behavioural terms are likely to be higher than handling it in economic terms (further analysed below).

Adam Smith's exit from behavioural ethics, after decades of moral philosophical research on behavioural ethics, underlines this argument. Smith's and similarly Mandeville's turn to economics[7] was driven by their very attempt to conceptualise a viable ethics for handling social problems in their contemporary contexts. Their maxims that ‘private vice’ and ‘self-love’ (speak: self-interest) should yield ‘public good’ and the ‘wealth of nations’ formed the cornerstone of a new approach to ethics. Equally, Smith’s (1976) famous suggestion that *not* the ‘benevolence of the baker’ (speak: business ethics understood in a behavioural way) should be relied upon for morality to materialize in social behaviour has to be read as the advice of a moral philosopher who was well aware of the condition of modernity and its undermining impact on behavioural ethics.

In general, behavioural ethics needs to conceptualise value pluralism and moral disagreement as a threat to a value consensus amongst interacting agents. From a practical, normative perspective, behavioural ethics must aim to overcome value pluralism, trying to (re)-moralize and (re)-harmonize the value, norm and belief structures of individuals. Psychological, sociological and theological techniques are applied and at times even physical force may be advocated for restoring a value consensus. These considerations imply that certain moral ‘costs’ come with behavioural ethics and behavioural contracting in general. They have to be considered when the *quality* of morality of behavioural ethics is assessed and compared with that of an economic approach to ethics. Indeed, as Mill and similarly Hayek (1960, 1976) and Popper (1962) hinted, value pluralism could be viewed not only as morally acceptable but even as morally desirable since it tends to come with the behavioural autonomy of the individual, liberty, enlightenment, emancipation, tolerance, etc. Such ideals are likely to justify the promotion and protection of value pluralism on moral grounds. Hayek’s concept of the ‘great society’ and Popper’s concept of the ‘open society’ reflect this. In this respect, an economic approach to ethics may even outperform behavioural ethics with regard to the quality of morality.

The Institutional Enactment of Modernity and the Disillusionment of Behavioural Business Ethics

Institutional structures, which, for example, protect competition through business laws, are constitutionally, politically and legally imposed on business behaviour in a market economy. This intensifies the condition of modernity – and thus theoretical and practical limitations of behavioural ethics. For instance, a legal framework of business laws enforces self-interested and competitive ('conflict-oriented') behaviour on business interactions. The possibility is ever looming that 'unfit' firms are eliminated from the competitive process. As Buchanan's (1975, 1987a, 1987b) and Williamson's (1975, 1985) research demonstrated, such institutional, economic structures 'inside' and 'outside' a firm can be viewed as incentive structures (Figure 2 illustrates what types of incentive structures had to be considered).

Insert Figure 2 about here

In this respect, the market economy not only tolerates the condition of modernity, but also actively draws upon the condition of modernity to organize social interactions as competitive processes – for larger moral reasons. Self-interested behaviour, which behavioural ethics might reject on behavioural grounds of 'pluralism', 'uncooperative predispositions' and 'benefiting at the expense of others', is here installed in the very 'rules of the game.' Also, interest conflict – a dilemma structure, in a methodological sense (Wagner-Tsukamoto, 2003) – is actively enacted. On these grounds, morality, understood in economics terms as the ideal of 'public good' and the 'wealth of nations' (and other ethical ideals; see below), is expected to emerge 'already' from self-interested choice and competitive social interactions. Thus, behavioural ethical ideals of social harmony and individual goodness are not drawn upon for analysing and enacting morality. If in the institutional setting of the market economy a behavioural approach to institutional ordering were favoured, severe conflicts of conscience and a clash of moral precepts of a behavioural ethics with institutionally enforced business objectives and constraints can be anticipated. Then behavioural measures as favoured by behavioural ethics are likely to be unsuccessful for inducing corporate social responsibility.

The Quakers' attempt to implement certain ideas of behavioural ethics in business practice here tells of a classic failure that compares to what Himmelfarb (1995) described as the de-moralization of Victorian society. Considering the condition of modernity and its institutional enactment in a market economy, it was hardly surprising that ultimately '... Quaker businessmen ... called the title of Quaker employer ... a flat contradiction in terms' (Child, 1964, p. 297; similarly, Kirby, 1984, p. 117, 126) – although the underlying factors were not understood at the time. Most of the Quakers' field experiments in business ethics from 1900 to 1940 failed despite various factors being stacked in their favour. Firstly, the competitive environment of early 20th-century Britain was in certain respects rather benign. Globalisation and international competition, as we know it today, hardly existed. Secondly, Quaker firms like Cadbury or Rowntree were run by owner-managers, that means stockholder problems cannot illuminate why Quaker firms failed to implement their ethics in business life. And thirdly, weak moral predispositions of managers, as they are primarily targeted by behavioural business ethics, were no important factor that could explain the failure of Quaker firms: The Quaker managers were highly religious men (Vernon, 1958; Windsor, 1980).

As much as the practical ineffectiveness of the Quaker ethics was recognized, and despite Quaker firms holding numerous conferences on this issue between 1900 and 1940, Quaker managers were mystified as to why the implementation of their ethics had in certain respects failed. Institutional economics here explains that the implementation of Quaker ethics failed because institutional structures and mechanisms of the market economy were ignored. Institutional economics argues that the competitive environment ultimately constrained Quaker firms from enacting their beliefs. Specifically, ‘modernity’ can be diagnosed regarding self-interested competitors, who did not share Quaker values, norms and beliefs. Moral disagreement was here an ever-present interaction condition in competitive processes. In this respect, the Quaker firm faced certain additional costs incurred by the implementation of their moral precepts. This put the Quaker firm at a cost disadvantage in – institutionally enacted and protected – competitive processes. This ultimately prevented the Quaker firm from engaging in – costly – behavioural business ethics in interactions with internal and external stakeholders (but not in behavioural business ethics that could be justified in economic terms, see below). Furthermore, anti-monopoly laws and cartel laws prevented Quaker firms from eliminating ‘less moral’ competition, e.g. through taking them over.

Ultimately, Quaker firms compromised and subordinated their ethical precepts to economic objectives and constraints. The principles of the Quaker ethics were only pursued if the costs of their implementation were covered by gains, e.g. a better treatment of employees, such as higher pay, yielded increases in productivity: ‘[A]ccommodation took the form of minimizing those Quaker maxims most in opposition to entrepreneurial interest ... with counterbalancing emphasis on other precepts not so antithetical to this interest.’ (Child, 1964,

p. 299; also Vernon, 1958, pp. 76, 95, 150, 164-166; Windsor, 1980, pp. 85, 88, 90, 133, 137, 171). The precept of the promotion of the value of hard work proved least problematic in this respect. It focuses on the idea of productivity, of making good use of one's time, hinting at a capitalist work ethic of the Judeo-Christian tradition (See Weber, 1974; also Gordon 1989, pp. 2-5; Himmelfarb 1995, p. 36; Windsor, 1980, p. 166). The rich literature on Quaker firms (Child has a good overview) has highlighted such ethical achievements of Quaker businessmen, although the economic logic behind such achievements remains under-explored. Equally, this literature does not analyze in detail economic causes why Quaker employers failed to realize the reasons for their lacking implementation success of most of their other religious beliefs. The important point I want to make here is that Quaker employers tried with great sincerity and determination to implement their religious beliefs in business life but that these attempts, in very considerable degrees, failed and reasons for these failures remained not understood. A statement from Child, as already quoted above, is here most indicative: 'Quaker businessmen … called the title of Quaker employer … a flat contradiction in terms.' (Child, 1964, p. 267) The present study here shed new light on – institutional, economic – reasons which illuminated the failure of Quaker employers and what can be learnt from these failures in more general terms.

In the period 1900-1940, processes of accommodation and compromise regarding precepts of Quaker ethics other than that based on the value of hard work left Quaker businessmen with awkward decision-making and conflicts of conscience regarding how to retreat from their religious principles. Conceptually, Quaker ethics offered little advice here: Like behavioural business ethics, it does not develop hypothetical, qualified imperatives to only obey moral precepts *if* this were compatible with the business requirements of maintaining profitability, the survival prospects of the firm, etc. Rather, Quaker ethics sets out categorical imperatives, as similarly done by Kantian ethics or religious ethics that draws on the Old Testament or New Testament, to always exercise 'correct personal spirit.'

It can be argued that Quaker firms may have stood a better chance to successfully implement their ethics if they had approached the implementation of their ethics in economic terms. Three routes can here be distinguished (For a conceptual overview of these three routes, see Wagner-Tsukamoto, 2005, 2007b):

1. being content with the idea of unintended, 'indirect' moral agency;

2. laying moral precepts of Quaker ethics down in the institutional ‘rules of the game’ of the market economy, which are conventionally viewed by economics as the systemic place of morality in a market economy;
3. morality being conceptually located in the very ‘moves of the game’, as a matter of capital exchange with stakeholders (but in economic terms and not in behavioural ones).

The two latter routes imply a hypothetical qualification of categorical behavioural imperatives of behavioural ethics, and a prioritising of an economic approach to ethics over a behavioural one. To detail these three points:

1. Point one refers to the emergence of morality as an *un*intended outcome of self-interested choice in a market economy, specifically reflecting ideals such as mutual gains and the wealth of nations.

2. Up to a certain level, behavioural moral precepts can be laid down in the ‘rules of the game’ of the market economy which bind all firms in the same way. This implies cost neutrality of moral corporate behaviour for the single firm. Quaker firms could have lobbied for tougher constitutional and business laws that were more in line with their ethics. However, (i) in the face of global competition, a costly moral toughening of laws had to be internationally approached in order to succeed on a ‘local’/national scale. Otherwise, over time morally less regulated and thus less costly markets are likely to attract firms from more highly regulated markets (Vanberg, 2001; Wagner-Tsukamoto, 2005). Also, (ii) a religious toughening of business laws raises questions regarding the effectiveness of the market mechanism being undermined by behavioural ethical codes. If undertaken in extreme form, a behavioural ethical toughening of the rules of the game can imply the exit from the market economy, for example, when self-interest as initiation and coordination mechanism of social interactions were partly or fully replaced by concepts of altruism, benevolence, compassion, etc. The comparatively unsuccessful field experiments of communism, Islamic banking or

a 'social(ist) market economy' (e.g. the Swedish model of the 1960s and 1970s), provide warning examples. Furthermore, (iii) a religious toughening of business laws raises questions regarding cultural imperialism and the tolerance of value pluralism. Quaker firms like Cadbury or Rowntree here came under heavy criticism once they took over national newspapers in order to influence public life regarding Quaker beliefs (Vernon, 1958; also Windsor, 1980).

3. Most of the pioneering welfare advances in Quaker factories like Rowntree's or Cadbury's, such as a pension scheme, paid holiday, free medical services, profit-sharing arrangements, etc. (Vernon, 1958; Windsor, 1980), were only introduced once they had been 'tested' by Quaker employers in economic terms. As Vernon (1958, p. 164-166) stressed, such advances were made not out of 'sentimental benevolence' but a seen need for economic success (Similarly Windsor, 1980, pp. 147-148). On the other hand, if such economic benefits did not exist, welfare programs were abandoned (e.g. Vernon, 1958, p. 150). These implementation processes of behavioural ethics can be reconstructed in economic terms: With respect to the welfare programs introduced, Quaker employers created *ethical capital* in relation to the stakeholder 'employee,' both production capital (higher productivity, less wastage, less theft) and transaction capital ('trust' between employer and employee which stabilised and facilitated their interactions). Examples of ethical capital are generally reflected by cost/price differences between capital utilised in interactions in which stakeholders consider moral precepts and capital utilised in interactions in which stakeholders do not consider moral precepts (apart form moral precepts enacted on grounds of self-interested choice through the rules of the game; Wagner-Tsukamoto, 2005).

   Since Quaker firms like Cadbury and Rowntree at least partly began to produce chocolate drinks in the 19th century for ethical reasons, namely to combat alcohol consumption which they viewed as evil, Quaker managers could have considered transforming their behavioural ethical precepts into ethical capital in another respect, as well: for instance, brand capital which could be traded and exchanged with ethically minded stakeholders, such as consumers. [8]

> Chocolate could have been marketed like fair trade coffee, environmentally friendly washing powder, organic cheese, free range eggs, etc. (See also Wagner, 1997; Wagner-Tsukamoto, 2005). In these cases, firms recoup from stakeholders costs of paying attention to higher moral standards than the ones set by the rules of the game (e.g. Wagner, 1997, pp. 3-4, 206).
>
> In contrast to the transfer of behavioural ethical precepts into the rules of the game, which implies that morality flourishes in the moves of the game as the *un*intended result of self-interested behaviour (as discussed under point 1) or as the intended result of law abiding behaviour (as discussed under point 2), a transformation of behavioural precepts into ethical capital implies highly active intent of ethical conduct in the moves of the game. Understood as ethical capital, morality can be intentionally created and utilised in interactions amongst the stakeholders of a firm. Here, economic advantages have to be identified so that a firm is capable of sustaining ethical stakeholder behaviour – and corporate social responsibility (For details, see Wagner-Tsukamoto, 2003, Chapter 8; Wagner-Tsukamoto, 2005). A key idea of Smith, as restated and explicated by Friedman (1970) and similarly Homann (1990; 1999), namely that morality in a market economy should and could only emerge either as the *un*intended outcome of social interactions or the intended outcome of behaviour that is driven by the rules of the game, can be qualified in this way (Wagner-Tsukamoto, 2007b).

It can be suggested the Quakers' *behavioural* experiments in business ethics, which related to precepts (1), (3) and (4) as discussed above, largely failed because their approach to handling morality in business behaviour was neither theoretically nor practically in tune with the systemic constraints and interaction logic of the market economy. Quaker firms neither attempted to codify the moral precepts of Quaker ethics in the rules of the game of the market economy nor did they attempt to transform their moral precepts into ethical capital that could be created, exchanged and utilised in interactions amongst the stakeholders of the firm. As indicated, for the stakeholder 'employee' they successfully introduced a number of welfare programs – because this was in tune with economic necessities and the creation of ethical capital. But as much as the transfer of morality into incentive structures and the transformation of morality into ethical capital outline effective and efficient routes for protecting and encouraging the doing of good in social interactions in a market economy, they cannot be conceptually developed from within behavioural ethics. Institutional economics is required here for re-conceptualising morality, explicitly paying attention to the institutional systemic context that is constructed through incentive structures that govern capital exchange on grounds of self-interest. From such a suggestion, implications regarding the nature and feasibility of interdisciplinary collaboration are likely to emerge, namely regarding how to prioritise findings from different research programs for practically intervening with business behaviour in order to induce corporate morality.

Concluding Discussion: An Institutional Economic Platform for Business Ethics Theory and Practice

The paper did *not* interpret the economic approach in the tradition of behavioural economics, as is especially linked to Simon or similarly Sen (e.g. Sen 1990; Simon, 1993; also Frank 1988, 2003; Margolis 1982), but in the tradition of classic, non-behavioural economics, as it emerged from Smith's and Mandeville's studies, and as it was connected to by economists like Hayek, Friedman, Buchanan, Becker, Homann, and to a considerable degree also by Williamson. In general, behavioural (ethics) research seems analytically ill-equipped and practically ineffective to handle social problems when value pluralism, ethnic diversity, moral disagreement or, in short, 'modernity' arises as an interaction condition. This is so because of the conceptualisation of behavioural ethics as a systemically *un*conditioned (moral) science of human nature. As noted, in a market economy, 'modernity' is even formally enacted – for moral reasons, as an economics of business ethics details – through incentive structures inside and outside a firm.

In the contemporary contexts of Smith and Mandeville in which value pluralism increasingly emerged, moral philosophers exited in force from behavioural ethics because of theoretical and practical problems of this types of ethics. Behavioural research may not have taken on board the counter-intuitive conclusions which moral philosophers with a deep understanding of behavioural ethics arrived at, such as MacIntyre (1985), Williams (1985; 1988) and early on Smith and Mandeville, or similarly religious owner-managers, like the Quaker industrialists, as reviewed in this paper.[9] In response to modernity, Mandeville's and Smith's programs of 'private vices, public good' and the 'wealth of nations resulting from self-love' set out a new approach for analysing and enacting morality.

It goes unquestioned that Quaker firms achieved very notable social innovations but it also goes unquestioned that many of their behavioural business ethics experiments failed. The paper here has reconstructed in economic terms why behavioural business ethics frequently runs into problems and why under certain circumstances behavioural ethics works in a market economy. The study indicates that the analysis of questions of whether and how morality can thrive and can be made to thrive in a business context might benefit from

- a different conceptualisation of morality than the one suggested by behavioural ethics, focusing on an economic interpretation of morality and ideas like mutuality of gains and larger societal goals, such as the wealth of nations;
- a different conceptualisation of institutions for enacting morality, focusing on incentive structures and the assessment of situational conditions that constrain business behaviour in a market economy;
- a different conceptualisation of institutional behaviour, focusing on ethical capital and the interaction logic that drives business behaviour in a market economy.

On the basis of a classic, non-behavioural approach to economics, institutional economics, firstly, conceptualises morality on the basis of mutual gains (but in certain regards, also on the basis of mutual loss outcomes; see Figure 1). Mutual gains at the interaction level of self-interested exchange needs to be projected to larger societal goals, such as the *un*intended emergence of social goals like the wealth of nations. Secondly, institutional economics *systemically* conceptualises morality with regard to the 'rules of the game' (incentive structures). They reflect the systemic place of corporate social responsibility and conventional practical, normative techniques of institutional economics for enacting corporate social responsibility. Less conventionally, the present paper outlines that there is room for conceptualising morality as the active, intended exchange and utilisation of *ethical capital* amongst the stakeholders of the firm (In more detail, Wagner-Tsukamoto, 2003, Section 8.2; Wagner-Tsukamoto, 2005). However, an economic conceptualisation of intended morality as ethical capital does not imply a re-entry into behavioural ethics or behavioural economics.

In a value pluralistic context, behavioural research is probably only capable of solving an institutional 'rest-problem' where basic interaction problems have already been resolved in economics terms. That means, the economic approach – its concepts 'incentive structures' and 'capital utilisation' and its methods 'dilemma structure' and 'economic man' – may have to be drawn upon for setting out a design shell of practical, normative social science, which uses findings from various social science research programs by purposefully (re)-conceptualising behavioural concepts in economic terms. Morality is then (1) projected to economic ideals of public good and mutual gains; (2) it is codified in the rules of the game; and (3) morality is transformed into ethical capital. The idea of 'interdisciplinary' research is so strictly linked to a prioritising concept that is led by economics. Such leadership by economics is justified by its apparently higher viability to solve moral problems in a value pluralistic, competitive environment, as it characterizes so many 'modern', industrialized and globalizing societies. In addition, leadership of economics can be justified regarding the quality of its concept of morality: Behavioural contracting that aims at a value consensus and the elimination of moral disagreement frequently comes at the cost of an anti-pluralistic orientation and the application of certain indoctrination techniques which confine the behavioural autonomy of the individual.

Finally, on a methodological issue, which could not be further examined in this paper (For details, see Wagner-Tsukamoto, 2003), an argumentation by behavioural ethics against economic ideas like 'economic man' and 'interest conflicts' may have to be discounted as a misunderstanding of the methodical nature of these ideas in economic research (as of equivalent ideas in behavioural research). If this is considered, a morally favourable image of human nature and of social life can be identified for economics, reflecting ideals such as public good and social justice; 'invisible', non-interfering, democratic rulers over social interactions; self-organizing social exchange (in which morality can emerge intentionally or unintentionally); the motivational and cognitive autonomy of the individual; tolerance of value pluralism; and the growth of knowledge and enlightenment. Only for purposes of behavioural theory building and behavioural consultancy are human nature and social behaviour to be modelled in an empirical, behavioural perspective. This is frequently overlooked by behavioural researchers when behavioural moral precepts regarding 'not to benefit at the expense of others' and the 'avoidance of social conflict' are viewed as being threatened by the economic approach. For instance, the Quaker managers seemed to rather negatively interpret self-interested choice in an empirical, behavioural way. In this respect, behavioural ethics researchers and practitioners may benefit from learning about the methodical nature of certain concepts in economic research (Wagner-Tsukamoto, 2003). This also implies a rather different approach to teaching business ethics and to engaging in business ethics consultancy than a behavioural one, which focused on the re-moralization of managerial behaviour.

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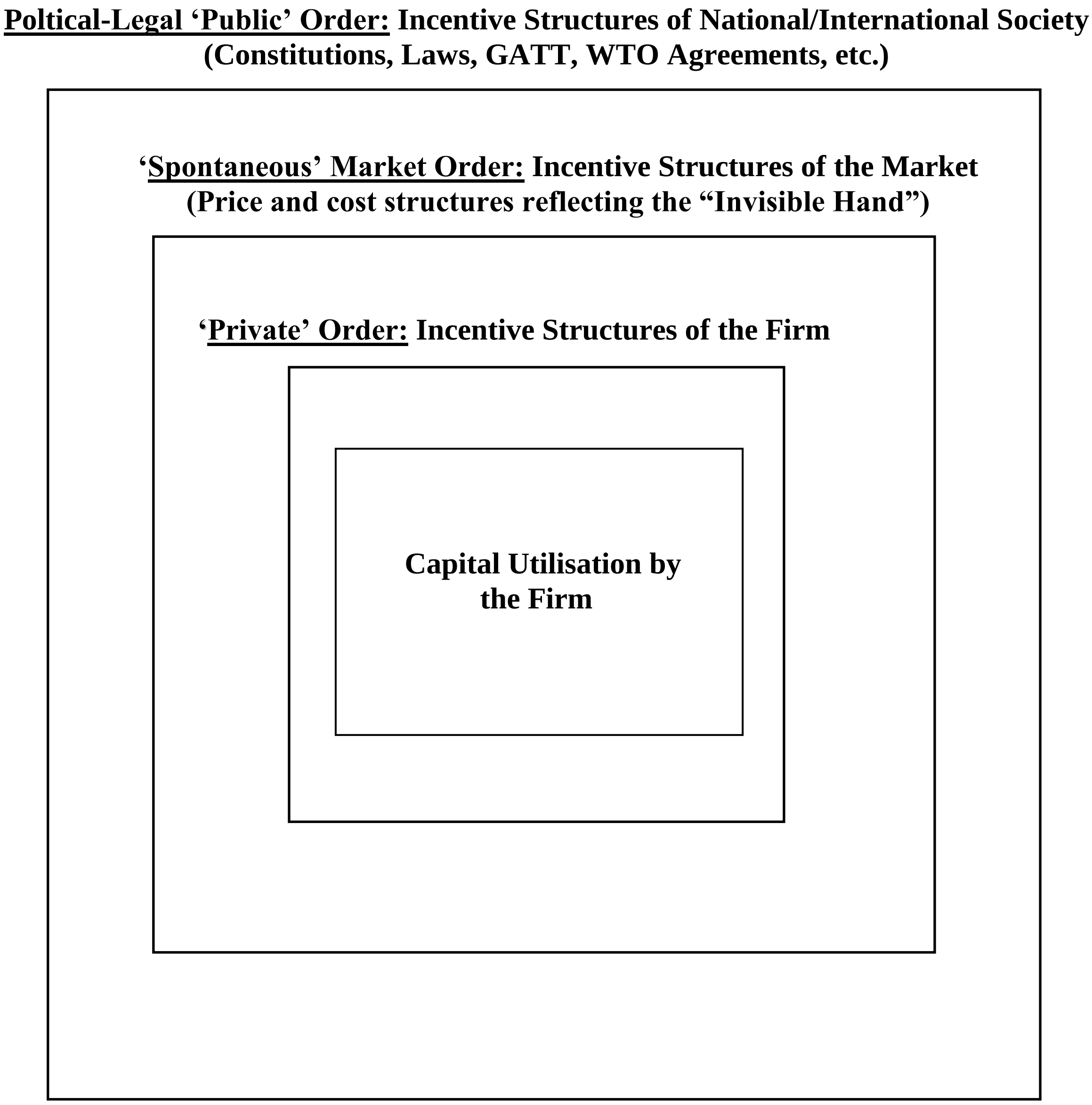
[Please find Endnotes after the figures]

Figure 1: Firm-firm Interactions & Morality

Societal outcomes of firm-firm interactions / *Extent of 'economic harmony' in firm-firm interactions*	*Ethical outcomes at societal level: 'Public good'*	*Unethical outcomes at societal level: 'Public loss'*
Cooperation (Pareto-superiority) in firm-firm interactions	'Fair cooperation': joint ventures, mergers, strategic alliances	'Unfair cooperation': cartels, monopoly situations
Competition (Pareto-inferiority) in firm-firm interactions	'Fair competition': 'survival of the fittest', bankruptcy of 'unfit' firms	'Unfair competition': predatory competition

Figure 2: Economic Institutions (Incentive Structures)
[adapted from Figure 2.1, p. 26 of Wagner-Tsukamoto, 2003]



Endnotes:

[1] As discussed below, such principles of behavioural ethics can, to a considerable but not full degree, be reconstructed through an economic approach to ethics.

[2] See, for example, Fort (2000) who reviewed Donaldson and Dunfee's approach.

[3] Besides, behavioural researchers often interpret personal gain merely on empirical-behavioural grounds. However, the idea of self-interest, as applied in economic research, may have to be methodically interpreted in the first place (Wagner-Tsukamoto, 2003).

[4] The present paper here shares Cima and Schubeck's (2001) position that self-love can constitute a sound conceptual starting point for moral philosophy. But differences exist (1) regarding the present paper's moral evaluation of pareto-inferiority or 'economic injustice', as Cima and Schubeck might call it; (2) regarding the present paper's positive evaluation of governmental intervention and the restriction of individual liberty; (3) regarding the present paper's suggestions on realigning economics with behavioural ethics through the concept of ethical capital; (4) regarding a methodological interpretation of self-interest.

[5] For other types of stakeholder interactions, such as firm-customer interactions, cooperation (pareto-superiority) stands a better chance of comprehensively reflecting an economic understanding of morality.

[6] As North's (1993a) institutional analysis hinted, the Coase theorem (Coase, 1937; 1992) can in this respect be projected to effectiveness and efficiency assessments of 'psychological contracting'.

[7] It was probably no coincidence that moral philosophers like Mandeville, Adam Smith or Mill who seriously began to question the role of behavioural ethics had, in the wake of industrialization, intensively encountered modernity.

[8] Whether stakeholders were here conceptualised as utilitarians, religious believers, virtuous persons, etc. can be left to behavioural ethics and behavioural (economic) research.

[9] The failure of communist societies to create the 'new good man' (Buchanan, 1987b, p. 275, footnote 9) tells a similar story.