Peter Koslowski
Editor

Elements of a Philosophy of Management and Organization

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Preface

Managing as human action has an inherent link with philosophy in epistemology, ethics, and cultural theory. The epistemology of management concerns the question of how management can improve its ability to create knowledge about managing the firm and about using management theory in the management task. Management ethics investigates the question what the right actions of management are, and the cultural theory of management examines how corporate culture can increase the cooperation within the firm and how cultural surplus value of products can increase the firm's value creation.

The Forum for Business Ethics and Business Culture of the German Philosophical Association and the Research Group "Philosophy of Management and Organisations - Filosofie in Bedrijf", Vrije Universiteit Amsterdam – VU University Amsterdam, intend with this book to emphasize that the impact of the disciplines of philosophy for management and business go beyond "business ethics" although ethics remains one of the three central disciplines by which philosophy is relevant for the economy and for management.

The mutual impact of philosophy on management and the theory of organisation as well as of management and organisation on philosophy will be examined in the four parts of this book, A. Management and Philosophy, B. Organization Theory, Organizational Practice, and Philosophy, C. Philosophy, Economics, and Business Ethics, and D. Philosophy and Brand Management.

The book at hand publishes the contributions to the 10th Annual Conference 2007 "Elements of a Philosophy of Management and Organisation" of the *Forum für Wirtschaftsethik und Wirtschaftskultur der Deutschen Gesellschaft für Philosophie* – Forum for Business Ethics and Business Culture, German Philosophical Association, held at Amsterdam, Netherlands, on 6-8 December 2007 and organised in cooperation with the Research Group "Philosophy

of Management and Organisations - Filosofie in Bedrijf", Department of Philosophy, Vrije Universiteit Amsterdam – VU University Amsterdam.

Amsterdam, 5 October 2009

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Part A

Management and Philosophy

Chapter 1

The Philosophy of Management: Philosophy as a Challenge to Business, Management as a Challenge to Philosophy

PETER KOSLOWSKI

A new field of exploration between different fields of expertise must be a synthesis of the contribution of the two fields since it should be more than just the account of the borderline of the two fields in question. As a synthesis, this field will draw from the resources of knowledge of the two theses of the synthesized fields and will be fruitful to both of them. The same holds true for the philosophy of management. The philosophy of management as a field to be developed must draw insights from both bodies of knowledge and it must be useful to both of them. If two fields ought to be open to a synthesis they must not stand in strict anti-thesis to each other but must have something in common. They must be sub-contrary opposites, not contradictory opposites. Hegelians often disregard in their endeavor to mediate everything that only sub-contrary and not contradictory contradictions

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can be "sublated" or reconciled in a synthesis. That philosophy and management theory can be synthesized requires that philosophy and management have something in common. There must be something philosophical in management and something managerial in philosophy.

I. Introduction

What is this common ground between philosophy and management? Both deal with human action, its quality of goal attainment and with the need for the coordination of human actions. The governing of oneself and the governing of others is the central concern of philosophical ethics and of political philosophy. Managing oneself and managing others is the goal of management. To manage is a newer term then the term to govern and it also includes a shift in the way governing is done. The first trace of the term "manager" is found in Shakespeare's play *Love's Labour's Lost.*[1] It is not accidental that managing becomes a central term with modern times and that it is first used in modernity by the great playwright of the English language.

Management is governing without political power, is leading without recourse to political or religious authority. Its legitimacy is functional: Management is justified by its function to increase efficiency, not by the political good or the consent of those influenced by the management. Its legitimacy is neither traditional nor consensual, it is functional. The idea of management implies that the people managed feel that they win by being managed.

Jeremy Rifkin and later Peter Sloterdijk have compared the managers of the large corporations to the great feudal lords of the middle ages. Like those, they possess, they say, large semi-political power without being the government. Like the feudal lords they are not subjected to political vote. This comparison is somewhat misleading since management is subjected to strict functional control and to measurement by success in terms of turnover and profits. Management will be fired if the figures are not good, a feature that the feudal lords did not share. If the managers are successful in terms of creating value and profit they might become almost unquestionable but

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[1] W. SHAKESPEARE: *Love's Labour's Lost I, 2*, ed. by Arden, 5th edition 1956, reprint 1960, pp. 29, 172. Cf. J. FELDHOFF: Article "Manager", in: J. RITTER, K. GRÜNDER (Eds.): *Historisches Wörterbuch der Philosophie*, Basel (Schwabe) 1980, vol. 5, col. 709.

they are still not feudal lords since their governance is checked at least by their success.

If the top managers are very powerful they should be subjected to the duty to use their power wisely. The idea that wisdom and power should be linked to each other is one of humankind's oldest ideas and ideals. It might be even older then Western philosophy. It is found in Homer's great epics but also in the Indian *Mahabharata*. In Western philosophy, it has found its strongest expression in Plato's *Republic*. Plato claimed that as long as the philosophers do not become kings, and the kings do not become philosophers there will be no end to the misery in the commonwealth. Plato demands that the holder of political office and power should also be a person searching for wisdom, a philosopher. It is Plato's famous idea of the philosopher-king that introduces the idea to philosophy that power should be led into a synthesis with wisdom.

This postulate of the unification of wisdom and power can be translated, under conditions of the present, into the postulate that the powerful manager or entrepreneur should combine power, expertise, and wisdom, should become a philosopher-manager. What Plato intended was the merging of political power and of prudence, cleverness, and wisdom, that the powerful has also philosophical prudence and wisdom, an understanding of human action and a theoretical knowledge of the deep structure of being.

This optimism that great political and economic power and philosophical wisdom should be reconcilable is, as well, at the basis of the idea of a philosophy of management. If we assume that great power, political or managerial, necessarily corrupts we will not believe that the synthesis of a philosophy of management is possible as philosophers assume who think that the philosopher is by his or her nature and training unable to take over the part of the politician or manager. Immanuel Kant thought that there is a *déformation professionel* on the side of the politician and man of practice as well as on the side of the philosopher although it is not the same professional deformation on both sides.[2] Their professional deformation renders them both unable to take over each other's role. The politician is so much absorbed by power, politicking and clever maneuvers that he becomes unable to the kind of disinterested, objective reasoning necessary for philosophy

[2] IMMANUEL KANT: *On Eternal Peace* (*Zum ewigen Frieden*), 2nd section, 2nd supplement, writes: "That kings philosophize or philosophers become kings is not to be expected, but also not desirable: since the possession of power spoils necessarily the free judgment of reason." (Translation by P.K. Original: "Daß Könige philosophieren oder Philosophen Könige würden, ist nicht zu erwarten, aber auch nicht zu wünschen: weil der Besitz der Gewalt das freie Urteil der Vernunft unvermeidlich verdirbt.").

whereas the philosopher who spends his life in the pursuit of universal philosophical truth is unable for the politicking that is necessary for the participation in the public arena and for its concern with the particular.

The new field of inquiry of the philosophy of management presupposes that the gap between practice and theory, management and philosophy is not unbridgeable and that practice can become philosophical and philosophy can become practical. Since managing and governing as an activity presuppose cleverness, prudence, and wisdom or imply that they can at least be improved in their performance by a synthesis of clever managerial methods, ethical prudence, and philosophical wisdom the goal of this new field is nothing that is alien either to philosophy or management. Both will be improved in their own field by learning from each other.

There are in general three fields where philosophy becomes fruitful for the realms of reality and the specialized disciplines of enquiry, the field of the ontology and epistemology of realms of reality and of scientific inquiry, the field of the ethics of a field of reality and inquiry, and – a less general discipline – the aesthetics and cultural theory of human action and interaction in the social realm and in the arts. Philosophy questions and elucidates the scientific methods of the particular fields of scientific theory and it investigates their ethical foundations in the normative and cultural sense. Ethics is about the morals and culture of a field of action, in our case the field of managerial action. Hegel distinguished *Moralität*, conscious morality and morals, from mores and customary ethics, *Sittlichkeit*. Wilhelm Dilthey coined the same difference as *Sittlichkeit* and *Sitte*, in Dutch *zedelijkheid* and *zede*. Not everything that is moral or morality (*Sittlichkeit*) is also mores, customary and habitual customs and habit (*Sitte*). Not everything that is customary and has been made customs and habitual practice (*Sitte*) is also moral and fulfils the requirements of morality (*Sittlichkeit*).[3]

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[3] The theory of ethical economy as the basis of business ethics is, therefore, a theory of business morals and of business mores following the double meaning of ethical as the analysis of morals and customs. Cf. P. KOSLOWSKI: "Ethical Economy as Synthesis of Economic and Ethical Theory," in: P. KOSLOWSKI (Ed.): *Ethics in Economics, Business, and Economic Policy*, Berlin, Heidelberg, New York (Springer) 1992, pp. 15-56 (= *Studies in Economic Ethics and Philosophy*, vol. 3); P. KOSLOWSKI: "Economics as Ethical Economy in the Tradition of the Historical School. Introduction," in: P. KOSLOWSKI (Ed.): *The Theory of Ethical Economy in the Historical School. Wilhelm Roscher, Lorenz von Stein, Gustav Schmoller, Wilhelm Dilthey and Contemporary Theory*, Berlin, Heidelberg, New York, Tokyo (Springer) 1995, pp. 1-11 (= *Studies in Economic Ethics and Philosophy*, vol. 7); and P. KOSLOWSKI: "Is Postmodernism a

The third field between philosophy and management theory is the field of cultural practice and aesthetics that is linked to customs and habits but also goes beyond them to the question what is aesthetically and culturally a superior solution or aesthetically good. Philosophy as cultural and aesthetic theory is a powerful tool to increase the cultural and aesthetic expertise of management.

The paper will discuss fields where philosophy can be of use for management and a resource for improving the performance of the firm. It shall discuss two topics and fields of cooperation in which philosophy and management can increase their own performance by learning from each other in detail. One of these fields is taken from the field of management ethics and corporate governance and one from the field of management culture.

Philosophy must be interested in improving the performance of both, philosophy and management, by the study of the philosophy of management.

The relevance that philosophy can have for management goes beyond management ethics or business ethics. In the interaction between philosophy and management, there are three central fields, management ethics, the cultural philosophy of management and of management culture, and the ontology and epistemology of management and management theory, the philosophy of science of management theory.

In the first part of this paper it will be demonstrated that humankind's old ideal that power should always be linked to wisdom becomes relevant beyond the political realm for the realm of management and entrepreneurship since managers share with politicians in that they are powerful. One link between power and wisdom is the idea of the common good, the idea that power must serve the common good wisely. From the idea that the common good is one or the link between power and wisdom, it can be derived that it is the manager's duty to realize the common good of the firm – wisely.

In the second part, it will be shown how cultural philosophy becomes relevant for the management of the cultural value and the aesthetics of consumer goods in satiated markets since the cultural surplus value of goods becomes more and more the decisive comparative advantage of the firm. Its cultural branding in a market that expects a cultural surplus of goods requires the creation of experiences and their expression in a product in which the recipient or consumer can recognize his or her own experiencing.

Neohistorism? On the Absoluteness and the Historicity of History," in: *ibidem.*, pp. 286-309.

In the third part, the paper investigates the challenge that management poses to philosophy. It shows how philosophy can profit from a co-operation with management theory and from a philosophy of management.

II. Management Ethics and Corporate Governance: The Total Good of the Firm as the Fiduciary Duty of the Manager

A central question of corporate governance and management is the question of the role of management between shareholders and stakeholders. Are all questions concerning the role of management in its relationship with the shareholders and stakeholders solved by the principle of shareholder primacy? Or is there more to an answer to this question than that shareholders have primacy and that managers should maximize shareholder value?

The philosophy of management can draw from the resources of the philosophical tradition of common good theory. The philosophical theory of the common good of an institution serves as an inspiration as to how the legal idea of fiduciary duty and the philosophical idea of the common good can be made fruitful for corporate governance and for understanding the fiduciary and common good duty of the manager.

The demand for corporate social responsibility can be interpreted as a common good theory of the firm since it postulates that the firm must be aware and include in its responsible management the effects of its commercial activity on the common good of its members and on the common good of the firm's environment. It states that the manager is responsible and accountable for the total good of the firm, and that the total good is the manager's fiduciary duty as well to the shareholders as to the other stakeholders.

It is characteristic for the theory of the common good that it does not confine the demand for realizing the common good to the state. Every community or organization has its common good and the task to realize it.[4]

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[4] Cf. GUSTAV GUNDLACH: "Gemeinwohl" (*Common Good*), in: *Staatslexikon der Görres-Gesellschaft*, 6th ed. Freiburg i. Br. (Herder) 1959, cols. 737-740, here col. 738. – See also JAMES M. BUCHANAN: "Gleiche Spieler, anderes Spiel. Wie bessere Regeln der Politik auf die Sprünge helfen / Mit geeigneten Anreizen zum Gemeinwohl" (*Same players, different game. How better rules help politics to get started / By the right incentives to the common good*), in: *Frankfurter Allgemeine Zeitung*, Nr. 80, 3 April 2004, p. 13. – ROMAN HERZOG: "Gemeinwohl II.", in: *Historisches Wörterbuch der Philosophie*,

Every community or organization, be it a business corporation, a university, or a school, is not only characterized by the individual interest of each of those working in them but also by the common interest of all those that work in the institution in question.

Every organization and institution possesses its specific common interest or good common to the organization. It has the task to realize the interest of the organization as a whole. The obligation towards the orientation on the common interest increases with the increasing impact of decisions and with the decision-maker's increasing power since the side-effects, the positive and negative side-effects of an action, increase with the action's impact. The acting persons are obliged to consider the public interest in those ranges of action that are relevant for the public interest. The fact that the decision problem becomes more difficult and complex by the duty to consider the public interest must not imply that the increasing complexity of the decision frees the decision-maker from the consideration of its side-effects on the public interest. The increasing complexity of decision-making only implies that, in judging the success of a decision as such and in considering its effect on the public good, the difficulty of the task has to be taken into consideration.

The holders of an office, be it a management office or a political office, must consider the common good of the institutions which they manage beyond their mere duty of agency to those who gave them the power to manage or to govern the institution in question, to their principals. Fiduciary duty is more than to act according to the principals' will.

The manager of a large firm is not only the agent of those who employ him - the shareholders or owners of a firm - but also their fiduciary and the fiduciary of those who work under his leadership because he is the fiduciary of the whole firm. The obligation to realize the common good of the institution is therefore also valid for the managers of the large firm.[5]

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edited by JOACHIM RITTER, Darmstadt (Wissenschaftliche Buchgesellschaft) 1974, vol. 3, pp. 256-258. – PETER KOSLOWSKI: "Public Interest and Self-Interest in the Market and the Democratic Process," in: BERNARD HODGSON (Ed.): *The Invisible Hand and the Common Good*, Berlin, New York, Tokyo (Springer) 2004, pp. 13-37.

[5] Cf. H. ALFORD and M. J. NAUGHTON: "Working the Common Good: The Purpose of the Firm", in: S.A. CORTRIGHT and MICHAEL J. NAUGHTON (Eds.): *Rethinking the Purpose of Business. Interdisciplinary Essays from the Catholic Social Tradition*, Notre Dame, Indiana (University of Notre Dame Press) 2002. – See also PETER KOSLOWSKI: "Shareholder Value and the Purpose of the Firm", in: *ibidem.*, pp. 102-130.

The fiduciary duty as a concept of law is defined by the following features: the duty of good faith, the duty of loyalty, the duty of care and prudence, and the duty of disclosure. The fiduciary duty of the manager is therefore defined as the duty of good faith, the duty of loyalty towards the firm, the duty of care and prudence in acting for the firm, and the duty of disclosure of possible conflicts of interest.[6] In fulfilling these duties, the managers are not free to follow their own interest or the shareholders' interest at the cost of breaching the fiduciary duty towards the firm as a whole. Rather, the shareholders invest the managers with their office to further the good of the whole corporation, and not only of theirs, the shareholders' good. It is a kind of self-binding on the side of the shareholders and on the side of the managers that is instituted by the fiduciary duty. This self-binding goes beyond mere shareholder and manager interests and transcends the notion of agency.

The duty of loyalty in the fiduciary duties obliges the manager to the undivided and unselfish loyalty to the corporation, not to the shareholders. It is more than mere contract, namely an obligation towards the firm as a whole.

The duty to care and prudence obliges the managers to act in the interest of their corporation, not in the interest of themselves or of the firm's shareholders only.

The duty of disclosure obliges the manager not to take advantage of knowledge confidentially acquired in the course of their work for the firm or of knowledge given to them by the shareholders about the firm. Their fiduciary duty of disclosure excludes the use of this knowledge as insider knowledge for making insider deals in the pursuit of their duties as managers of the firm or as private party. The prohibition of making use of insider knowledge or the duty to disclosure follows from the fiduciary duty of the manager towards the firm and the shareholders, not only to the shareholders.

The manager is not only his principals' agent, be they shareholders or single owners. He has more duties than those of realizing the interest of the shareholder group in profit maximization. The managers must consider the interest of the whole firm which includes taking into consideration the

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[6] See the papers by JOSEPH F. JOHNSTON: "Natural Law and the Fiduciary Duties of Business Managers" and P. KOSLOWSKI: "The Common Good of the Firm as the Fiduciary Duty of the Manager", in: NICHOLAS CAPALDI (Ed.): *Business and Religion: A Clash of Civilizations?*, Salem, MA (M&M Scrivener Press) 2005, pp. 305-319 and 320-335 respectively.

interests of other stakeholders when they realize legitimate shareholder interests in return on investment.

The manager's fiduciary duty is not only an obligation towards the shareholders, even it is primarily so, but also towards the corporation as a whole.

III. Management and Cultural Philosophy 1: Culture Value as the Task of the Organization to Increase the Internal Cooperation

The culture value is value that the firm creates beside shareholder value and product value. It is a task in which a philosophical understanding of culture and aesthetics is of use. The philosophy of culture becomes here immediately relevant for the management of the firm.

Each human being participates in his or her human capital in the cultural, social, and moral capital experienced and built up in the community the person belongs to. This cultural capital in the broader sense represents, like all capital, wealth and is capital as one of the factors for wealth creation.

1. What is Cultural Capital?

John Dewey is said to be the first to introduce the idea of a social capital but in a preliminary way. In a paper of 1986, *The Forms of Capital*, Pierre Bourdieu distinguishes three forms of capital: economic capital, cultural capital and social capital.[7] According to his definition, social capital is "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition".

In Thomas Sowell's approach, the concept of *cultural* capital comprises the distinctive productive capacities or skills and cultural values (work habits, thrift, emphasis on education and deferred gratification, entrepreneurial

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[7] PIERRE BOURDIEU: "The Forms of Capital", in J. RICHARDSON (Ed.) *Handbook of Theory and Research for the Sociology of Education*, New York, Greenwood) 1986, pp. 241-258. Originally in: "Ökonomisches Kapital, kulturelles Kapital, soziales Kapital," in: REINHARD KRECKEL (Ed.): *Soziale Ungleichheiten* (Soziale Welt, Sonderheft 2), Göttingen (Otto Schartz) 1983, pp. 183-98.

spirit, etc.) which explain the degree of development of specific countries, ethnic groups and civilizations.[8]

Francis Fukuyama extended the concept of cultural capital to the concept of social capital. He defined social capital as the ability of people to work together for common purposes in groups and organizations, or as the ability to associate with each other.[9]

2. The Increased Cooperation of the Firm as Cultural Capital and Culture Value

The corporation is a means to increase wealth creation by a higher degree of cooperation than the market can provide. It creates corporate cultural or social capital to increase the degree of cooperation between the members of the organization. Why do we enter corporations with their hierarchies and regulation? Why don't we sell our services or products in the market to other market participants? The answer is that the corporation can pay a higher return to its employees and shareholders on their investment of labor or capital respectively than the market since it creates a value added by its higher degree of cooperation and efficiency. This surplus is the culture value every good organization produces by its corporate culture that enables it to realize a higher degree of cooperation within the corporation than the market is able to realize by market transactions.

Trust in or between the members of the organization is not so much the origin but the result of this culture value. The optimal corporate culture is also not only based on trust. Rather, it is the mixture of trust and control that creates the highest culture value added. The Western business culture is not a culture of trust only. It is also a culture of well-defined contract and controlled elimination of favoritism. Further, it forms a culture of the elaborated presentiation of future cooperation in detailed contracts. The more detailed the contract, the more the future is drawn into the present, and the less vague are the expected future contributions of the contract partners. The combination of trust and elaborate contracting creates the highest culture value in a culture of cooperation of contract and trust. It is superior to a mere trust culture or a mere control culture.

This holds also true for the monitoring of work performance. Every employee has a monopoly in his or her good will. Only he or she knows

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[8] THOMAS SOWELL: *Race and Culture. A World View* (1994), New York (Basic Books) 1995.

[9] FRANCIS FUKUYAMA: *Trust: Social Virtues and the Creation of Prosperity*, London (Hamish Hamilton) 1995, p. 10.

whether she puts her true effort into her work. The firm must, in the end, trust its employees that they try hard. But it cannot only trust. It must also control performance by the right corporate culture of trust and control.

Top managers are subjected to the same dialectics of trust and control: The firm cannot only trust them that they do their best in their job. It must control them by sales and profit figures as well as expose the management to the capital market as the market for corporate control that effects control by mergers and takeovers by which management teams can be exchanged.

The market for corporate control that works by takeover threats and hostile takeovers is necessary since the top management might realize a reasonable profit and shareholder value and satisfy everyone. There might exist, however, a better management team that might do even better. In the field of the control of management teams, a culture of the capital market and market for corporate control is needed to assure that the culture value and shareholder value creation of the firm are not only satisfying, but optimizing.

IV. Management and Cultural Philosophy 2: The Circle of Experiencing and Understanding in Management and in Art

In an important second respect, culture creates value in corporations. Cultural meaning and cultural surplus value are able to increase the value creation in a corporation by adding value to the corporation's product.

1. The Cultural Surplus Value of the Goods and Services as the Firm's Task

Most goods or products in modern economies are duplex good. They are products with value-in-use and with a cultural surplus of a cultural or aesthetic value which is generated by the cultural meaning of the product, by the firm's marketing of a life style, by the firm's myth making about the product, and by the way the firm is perceived by the public and the customers. The firm's creation of culture value by creating consumer value in the product and the firm's creation of shareholder value through return on capital and capital gains of shares are realized simultaneously.

By creating a cultural surplus the firm creates additional value. Cultural creativity and art are means of value creation in the firm. The production of

the arts and the industrial production of the modern firm have in common that they are both workshops of production, spheres of creativity and ingenuity. The corporation is like the workshop of the artist a sphere of creation and production, of bringing forth products with cultural value. The corporation is the place of the production of products that are characterized more and more by cultural surplus value. The industrial production becomes similar to the production of the arts. In the arts and in the corporation, the product and its reception by the audience or the consumers are at the center of the productive effort.

The producer in business and the producer in art face a similar challenge. Both must give expression to an experience in a product that can be re-experienced by the recipient, – in art by the listener, viewer, or reader, in business by the consumer of commercial products. The economic and the artistic producers have in common that they respond to an experience of a situation of need as a stimulus for production. Like the artist, the economic producer experiences a situation of need, responds to this need, and makes the fulfillment of this need to be the goal of his or her product. The economic producer and the art producer respond to this situation of need with a product. The economic producers must be able – like the artist – to transform their own experiencing of a need into an objective product in such a way that the consumers recognize their own need and the satisfaction of it when they experience the consumer good supplied by a firm.

2. The Circle of Cultural Understanding and Experiencing in the Production of Art and of Industry

In the advanced economy, the task of the producing firm is the satisfaction of needs for superior goods, for goods that are shaped to a large extent by culture, by cultural habits, traditions, and the creativity of new cultural and aesthetic qualities. These needs have a high cultural value added or cultural utility supplementary to the value-in-use. Firms must invent or discover needs and goods that yield an experiencing (*Erleben*) to the consumers which they recognize as their own experiencing and need.[10] The consumers in

[10] The paper at hand transfers Wilhelm Dilthey's theory of experiencing (*Erlebnis*) and its expression in a piece of art characteristic for the artistic production to the advanced industrial production. – B. JOSEPH PINE II, JAMES H. GILMORE: *The Experience Economy: Work Is Theatre & Every Business a Stage*, Cambridge, Mass. (Harvard Business School Press) 1999, characterize the present Western economy as "experience economy". Their book is another approach that emphasizes

their experiencing of the good must re-experience as utility the experiencing that the producer has tried to convey by the good. Economic producers or firms must put an expression of experience into their products – be it the response to a need for material objects or the solving of a problem by a service or by fulfilling the need for experiencing or for entertainment. Their good must anticipate the consumer's experiencing and give the consumers the feeling that their needs have found their expression in the fulfillment the producer's product offers to them.

At the foundation of every cultural phenomenon lies the experience of situations of need or problematization as Wilhelm Dilthey has shown in his philosophy of culture or of the human sciences.[11] An exemplary case of this experiencing is the artist's experiencing. The artist experiences a situation as an impulse for creative production. He or she gives the experience an objective expression, objectifies this experiencing and expresses it in a culturally meaningful content, in a meaning, and offers this objectified form of his own experience to the recipient, the listener, reader, or observer, for the recipient's own experience. The result of a successful product of art is the understanding of the recipient and his or her re-experiencing (*Nacherleben*) of the artist's original experiencing. There must be a "circle of understanding", as Wilhelm Dilthey called it,[12] in any great production of art between the creative artist's experience leading to the piece of art and the recipient's or consumer's experience in re-experiencing the artist's experiencing.[13]

The idea of a circle of understanding is of great relevance for the cultural value of the firm. In the industrial firm, there must also be a circle of understanding between producer and consumer, between the supplier of

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the need for the modern firm to produce 'experiencing' for the consumer by its products, and not only tangible utility.

11 Cf. WILHELM DILTHEY: "Introduction to the Human Sciences", in: W. DILTHEY: *Selected Works*, edited by Rudolf A. Makkreel & Frithjof Rodi, vol. 1, Princeton (Princeton University Press) 1989. German Original: *Einleitung in die Geisteswissenschaften. Versuch einer Grundlegung für das Studium der Gesellschaft und Geschichte* (1883).

12 Cf. for a congenial presentation of Dilthey's position EDUARD SPRANGER: "W. Dilthey, Gedächtnisrede" (Memorial Speech), in: EDUARD SPRANGER: *Vom pädagogischen Genius. Lebensbilder und Grundgedanken großer Erzieher*, Heidelberg (Quelle & Mexyer) 1965, p. 210.

13 Cf. for Dilthey's circle of understanding and its application to contemporary culture P. KOSLOWSKI: *Die postmoderne Kultur. Gesellschaftlich-kulturelle Konsequenzen der technischen Entwicklung*, München (C.H. Beck) 1987, 2nd edition 1988 (= *Perspektiven und Orientierungen. Schriftenreihe des Bundeskanzleramtes*, Bd. 2).

an experiencing (*Erleben*) and the consumer of this experiencing in the consumer's or recipient's re-experiencing (*Nacherleben*). Not only in the great productions of art but also in any non-trivial production of industry, there must be a circle of understanding between the producer's experiencing and expression of this experiencing and the recipient's or consumer's experiencing.

The firm in the advanced economy must be able to create this circle of understanding between its creative products and their anticipation of needs on the one hand and the re-experiencing of this product's expression of cultural value in the consumer's own experience. Like the good artist, the contemporary, culture oriented business firm must create a product that expresses and fulfils a need that the recipient or consumer experiences as the expression of his or her own need. By recognizing a need, by expressing this need in a product, and by making the consumer understand the product and the experience that underlies it, the cultural value or the capital of art becomes part of the value creation of the successful industrial firm and of its ability to create cultural value.

The theory of art and culture, aesthetics and philosophy of culture, become in this way an integral part of the invention of industrial products. A successful management must consider aesthetics and cultural theory in designing the products for a market that expects cultural surplus value.

V. The Challenge of Management to Philosophy

Philosophy is a lonely activity whereas management is the climax of co-operation and coordination and, therefore, the climax of non-loneliness. What can philosophy learn from management, what is management's challenge for philosophy? Management confronts philosophy with a feature of modernity, the large organization. The large organization and the phenomenon of the institutionalization of large scale vertical integration of phases of production and the cooperation of large numbers of people for economic purposes is a new feature of modern society that started in late 19th century. The corporation as an organization is a fairly recent development.

The corporation is located between the state and the individual. Social philosophy has been concentrating on the state and the church on the one hand, and on the individual on the other hand, and on their interactions. The corporation which added a new element of the division of power between state and church has not been at the center of philosophical inquiry.

The institutionalization of large scale cooperation in huge firms as a feature of modern society is in a certain contrast to the idea of the philosopher as an independent and individual thinker. Since institutionalization and cooperation within the corporation have been and are so successful, their very success challenges philosophy and urges it to understand the phenomenon of institutionalization and corporation-building. In turn, the philosopher as a non-organizational man can be the sparring partner for an over-institutionalized organization and its groupthink and might be of great use to the large organization.[14] The philosopher can serve as the critical observer and initiator of fresh thinking in large hierarchies.

Another challenge of management for philosophy is the tension and complementary character of lifeworld (*Lebenswelt*) and the organizational-technical world, of the lifeworld and of what Hans Freyer has called the secondary systems, the artificially created organizations. Since Husserl[15] and Habermas,[16] German philosophy is caught in the unfortunate contradiction of the *Lebenswelt*, lifeworld, and the technical-economic complex and in the idea that industry and capital colonize the assumedly intact lifeworld. A philosophy of management must criticize this utopian idea of an intact lifeworld and of an opposed evil world of capital that attacks the idyllic lifeworld. It is as well a retro-directed utopia of the past to think of the past as having been a lifeworld untouched by economic organization and technological development as it is a progressive utopia that there could be a lifeworld untouched by the evils of technology and rational organization one day in the future.

There is a tension between the personal world of intimate relationships and the impersonal world of the organization. There is also a need for keeping a personal element in impersonal organizations that must have an element of lifeworld in their interactions. The goal of a philosophy of

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[14] Cf. on group think IRVING L. JANIS: *Victims of Groupthink*, Boston (Houghton Mifflin) 1972.

[15] EDMUND HUSSERL: *The Crisis of European Sciences and Transcendental Phenomenology* (1954), Evanston (Northwestern University Press) 1970.

[16] For Habermas's attitude of combining anti-colonial pathos with resentment against the differentiation of modern society, cf. JÜRGEN HABERMAS: *The Theory of Communicative Action*, translated by Thomas McCarthy, Cambridge (Polity) 1987, vol. 2, p. 355: "When stripped of their ideological veils, the imperatives of autonomous subsystems make their way into the lifeworld from the outside—like colonial masters coming into a tribal society—and force a process of assimilation upon it. The diffused perspectives of the local culture cannot be sufficiently coordinated to permit the play of the metropolis and the world market to be grasped from the periphery."

management must be to reconcile the necessary elements of *Lebenswelt* in the organization with its rational structure and spirit of rationality, and to give rationality to the world of personal relationships, not as a colonization of the organization or the lifeworld by each other but by acknowledging their character of being complements.

If philosophy wants to understand and improve modern society it must understand the impact of the organization and of "organizational man", the human adapted to functioning in large organizations, on contemporary society. The philosophy of management must overcome the assumed contradiction between lifeworld and rational organization and strive for a reconciliation of the lifeworld and the world of rational organization.

Management and technology are an effort to save an effort, as Ortega y Gasset called technology. Management is a technique of organizing and leading human beings so that they can save an effort by reaching a higher yield by their efforts. As an effort to save an effort by reaching higher efficiency and yield in the cooperation of humans, management belongs to the "social techniques and technologies", the techniques of organizing, which are as important as, or even more important than, the techniques of production and the "industrial technologies" of conquering the scarcity of nature by science and technology. The technique of organizing might have the highest potential of saving human effort of all techniques and technologies.

The final aim of saving an effort is the saving of life time. Management is an effort and a technique to save life time for humans. In this feature, it is close to and of great interest to philosophy that is also an effort to lead a good life. One of the preconditions of the philosophical existence is to have time for thinking. Management is one way of securing this time for philosophizing and for experiencing and enjoying the other realms of culture for as many humans as possible. The good management of life and of time is the precondition but not yet the realization of the good life.

Chapter 2

Philosophy of Management: Concepts of Management from the Perspectives of Systems Theory, Phenomenological Hermeneutics, Corporate Religion, and Existentialism

JACOB DAHL RENDTORFF

In this paper, I discuss recent approaches in the theory and philosophy of management of a complex society, namely Denmark, focusing on the concepts of leadership, corporate citizenship, public relations, corporate social responsibility (CSR), and ethics. This is a discussion of philosophy of management in a complex society. The discussion is presented in five sections: 1) the emergence of business ethics in Denmark; 2) the systems-theoretic approach to philosophy of management; 3) the phenomenological and hermeneutic approach to leadership and ethics in organizations; 4) corporate religion, existentialism, and Kierkegaard; and 5) a conclusion.

I. The Emergence of Business Ethics: Towards the Political Firm

In Denmark, recent debates about philosophy of management in public and private organizations were initially limited to issues of business ethics and leadership and only later to deeper issues of epistemology and organizational ontology. Traditionally, Danish business ethics have been characterized by

P. Koslowski (ed.), *Elements of a Philosophy of Management and Organization*, Studies in Economic Ethics and Philosophy, DOI 10.1007/978-3-642-11140-2_2,

Protestant ethics, which promoted the norms of integrity, respect for hard work, and trustworthy behaviour; however, more recently it became evident that better thinking on business ethics was necessary. During the 1980s and 1990s the question of whether the term "business ethics" is fundamentally oxymoronic (that is, whether it is possible to combine ethics, values, and social responsibility with profits and efficiency) became a major concern (Pruzan 1998, 10).[1]

Instead of traditional bureaucratic methods of management, new kinds of values-driven and ethics-based forms of leadership were proposed. Many Danish companies have realized that a focus on CSR, ethics, and sustainability may be a competitive factor internationally, but also locally as a sign of high integrity and trustworthiness. Accordingly, business ethics is proposed as an important part of leadership, management, and corporate governance.[2]

There are five important aspects of the focus on ethics and leadership in Denmark: 1) understanding the significance of the political consumer, 2) ethical investing, 3) the ethical and social responsibility of the corporation, 4) ethical accounting, and 5) values-driven management.[3]

The concept of the political consumer expresses the role that the external world plays in corporate ethics. It can be argued that external pressure by well-educated and politically conscious citizens has been a driving force in the emergence of business ethics in Denmark. Public focus on issues of

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1 PETER PRUZAN: "Hvad er etik i erhvervslivet", in: KURT BOELSGAARD: *Etik i Dansk erhvervsliv - fremtidens lederkrav*, Århus (Jyllandspostens erhvervsbogklub) 1998, pp. 10ff. See also JACOB DAHL RENDTORFF: *Virksomhedsetik*, Frederiksberg (Samfundslitteratur) 2007.

2 It is arguable that Denmark is one of the most developed countries is this regard. At the Copenhagen Business School, research in management philosophy and business ethics began in 1986 with the creation of a department of system's theory and system's science. This department developed into the Department of Management, Politics, and Philosophy, combining management education with education in communication and philosophy. This has further developed and today we find teaching in philosophy of management in most Danish universities and business schools. See PETER PRUZAN: "Hvad er etik i erhvervslivet", in: KURT BOELSGAARD: *Etik i Dansk erhvervsliv - fremtidens lederkrav*, Århus (Jyllandspostens erhvervsbogklub) 1998, pp. 22ff. See also JACOB DAHL RENDTORFF: *Virksomhedsetik*, Frederiksberg (Samfundslitteratur) 2007.

3 PETER PRUZAN: "Hvad er etik i erhvervslivet", in: KURT BOELSGAARD: *Etik i Dansk erhvervsliv - fremtidens lederkrav*, Århus (Jyllandspostens erhvervsbogklub) 1998. See also JACOB DAHL RENDTORFF: *Virksomhedsetik*, København (Samfundslitteratur) 2007.

ecology and human rights has doubtlessly been helping to increase the involvement of businesses in ethical and political issues.

Danish companies have become focused on ethical investing, including a focus on the general social responsibility of corporations towards their employees. Institutional investors in Denmark have increasingly been developing strong policies on business ethics and CSR; therefore, major corporations have been forced to have policies on ethics in order to be acceptable objects for investments.

Indeed, the Danish government has been promoting the voluntary ethical and social responsibility of the corporation as a means of encouraging firms to act as good corporate citizens and to become more involved in society. The importance of being open to civil society and also in relation to the political system has been important for the development of CSR, as well emphasizing how CSR provides a form of competitive advantage for firms.

This development also includes the concept of ethical accounting, which promotes the integration of values in these functions of the corporation. The efforts of Danish organizations to include general social and civil dimensions in their accounting and reporting practices have taken different forms (e.g., alternative reporting measures based on dialogue and communication with employees, "balanced score cards," and other instruments are important in this respect). Indeed, different forms of reporting procedures have been central for ethical management and leadership. This is particularly the case regarding triple bottom line reporting, which accounts for the ecological, social, and economic dimensions of corporate performance.

The predominant Danish arguments for values-driven management and business ethics have been those emphasising the relation between good corporate citizenship and sustainable economic performance. Corporate governance is also viewed as a means to foster better management and encourage ethical demands for good governance. Thus, values-driven management is considered important for protecting the reputation, self-understanding, and identity of corporations. This includes values-driven management and business ethics as a means of focusing corporate contributions to the maintenance of sustainability, according to the triple bottom line. It is argued that corporations need to build good reputations and trusting relationships in society. In this way, there will be a closer connection between the values of the company and of society as a totality, integrating the company in the general societal conception of ethics and preserving the

"good life with and for the other in just institutions" as proposed by the French philosopher, Paul Ricœur.[4]

Together, these elements can be said to constitute a Danish model of CSR and business ethics that is peculiar, in the sense that it integrates CSR into social policy. Beginning in the early 1990s, it was used as a tool to silently change the track of the welfare state. The social minister of the social democratic-led government began to focus more on social responsibility, moving welfare policy from being rights based to more strongly encouraging active employment (i.e., moving from 'welfare' to 'workfare'). The Scandinavian welfare state has developed a model protecting social rights while promoting a stable and well-functioning employment market. Some have characterized this model as flexicurity, whereby workers can easily be fired but at the same time they are protected by the social security of the welfare state.

The social democratic government of the 1990s had a good understanding of the role that CSR could play in this policy shift. Increasing the number of partnerships between public authorities and private companies was decisive for developing an inclusive labour market. Greater interchange between public authorities and private companies was needed in order to establish greater links between private enterprise and broader social goals. To this end, the Copenhagen Centre for Corporate Social Responsibility was created with government support. Their purpose was to support social partnerships between public institutions, NGOs, and private corporations.

At the same time, the government channelled social help into the labour market by giving support to employment diversification schemes, including encouraging corporations to employ people normally excluded (e.g., the elderly, people who are unable to work full time, or the disabled) by subsidizing more than half of their salaries. Under these plans, companies were encouraged to take social responsibility and contribute to an inclusive labour market, which -in an era of flexibility - has been positively received by both unions and employers. The creation of this kind of labour market can be considered as a realization of social responsibility and business ethics. The idea of social responsibility in connection with values-driven management has contributed to an integration of basic social values in the workplace, fostering work-life balance, and preventing avoidable human tragedies. This has been accomplished by creating good and secure work conditions, decreasing the incidence of illness among workers, giving families

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[4] In *Soi-même comme un Autre* (*One Self as Another*, translated by Katheleen Blamey, Chicago (University of Chicago Press) 1992, p. 172), PAUL RICŒUR develops this idea.

better conditions, and promoting personnel policies that prioritize personal development, diversity, integration, and good working conditions.

As private political actors, corporations use different strategies to obtain legitimacy in society. The idea of the political firm, whose emergence is a striking feature of this development regarding business ethics and corporate social responsibility, can be conceived as a search for the "reconciliation of the particular with the universal."[5] A political firm is a firm that does not only act as an economic agent, but proposes a political view and takes part of policy-making. This may be formally but indeed also informally as a political actor in civil society. This is a very good way to describe the totality of the business ethics movement in Denmark. Social theorist Niels Åkerstrøm Andersen argues that political firms are correlated to the developments of private policy networks.[6] Andersen considers the political and socially responsible firm to be "the dream [of] civil society," where all conflicts between the state, market, and society are mediated and solved. In this sense, he can be said to emphasize an organic dimension of the idea, because his somewhat romantic argument resuscitates an older, holistic vision of society from the nineteenth century, rather than acknowledging the functional reality of postmodern network society.

According to this latter point of view - inspired by Niklas Luhmann - postindustrial society implies functional differentiation of different closed autopoetic subsystems of society. Firms in such a functionally differentiated society are reflexive and strategic, and are aware of the importance of legitimacy in relation to their environment. A characteristic feature of these firms is polymorphic organization with many spheres and codes, with particular forms and requirements of legitimacy. Andersen mentions spiritualization, pedagogization, aesthetization, intimitization (personalization), mediatization, and moralization as expressions of this multitude of codes and forms of legitimacy in modern corporations.[7] Corporations are situated in different networks with different strategies of legitimacy. The role of the state is not primarily to ensure law and order and protect rights and welfare, but rather

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5 NIELS ÅKERSTRØM ANDERSEN: "Supervisionsstaten og den politiske virksomhed", in: CHRISTIAN FRAENKEL (Ed.): *Virksomhedens politisering*, Frederiksberg (Samfundslitteratur) 2004, p. 235.

6 NIELS ÅKERSTRØM ANDERSEN: "Supervisionsstaten og den politiske virksomhed", in: CHRISTIAN FRAENKEL (Ed.): *Virksomhedens politisering*, Frederiksberg (Samfundslitteratur) 2004. See also SUSANNE HOLMSTRÖM: *Grænser for ansvar - Den sensitive virksomhed i det refleksive samfund*. Skriftserie, Center for værdier i virksomheder, Roskilde (RUC 5/2004).

7 CHRISTIAN FRAENKEL (Ed.): *Virksomhedens politisering*, Frederiksberg (Samfundslitteratur) 2004, pp. 247-248.

to facilitate the possibility of these private firms to reflectively self-regulate with regard to ethical and social issues in these private policy networks.[8]

This description of the intimization and moralization of the firm as an actor in a private policy network can be argued to express an ambitious dream of harmony between state, market, and society, explaining how it is possible to conceive of the political firm as a kind of reaction to the lack of values after the decline of Protestant ethics. This is unusual because it is normally presupposed that the political firm is not primarily an ethical or socially responsible firm, but reflects a necessary response to the complex problems of modern society, in which societal requirements for legitimacy imply that the firm should take social responsibility and include different stakeholders in the formulation of its strategy, mission, and values. When dealing with the dream of harmony between state, market, and society, these efforts almost imply a new dimension of values. Social responsibility, values, and business ethics are conflated and promoted as brand and image with strong emotional content.

With regard to political firms it is therefore important not to conceive of values and business ethics as ideological concepts that lead to mythological and simplistic understandings of the world, where ethics and values are reduced to propaganda to ensure the image and branding of the firm. The vision of the political firm should not be based on irrational ethics, but rather we should try to work for the republican concept of the good corporate citizen, which implies a reflective, rational, and democratic conception of management and corporate governance.

II. Values-driven Management and Organizational Systems

The Danish philosopher of management, Ole Thyssen, was very active in the ethical accounting movement. Actually, he was one of the inventors of the term in the late 1980s, when he and his colleagues Peter Pruzan and Mette Morsing introduced it at Spar Nord, a bank in northern Denmark. Their concept of ethical accounting was based on the idea of ethical reasoning about major arguments. Dialogue about values was central to this concept. In 1997, inspired by Habermas and Luhmann, Thyssen wrote his

[8] *Ibid.*, p. 254.

theory of values masterpiece, *Values-driven management: About ethics in organizations*.[9]

Conceiving of organizations as systems that are based on fundamental values, but also in constant interaction with their environments, we can posit values-driven management as the strategic response to the situation of the corporation as an open system in society. In fact, I think it is possible to combine systems-based conceptions of organization with philosophical conceptions of ethics and practices within organization theory, in order to define the role of values-driven management as the basis for ethics in organizations. By being explicit about ethical norms and values, communication and information about the organization can be improved. In this context, we can define organizations in the light of systems theory as systems based on communication. This communication is possible because it uses different media as basis for general codes of interaction.[10]

Thyssen's approach to ethical communication opens the organization to the environment and contributes to making the aim of organizational development more explicit. In this context, ethics is conceived as a reflective mechanism of governance, which is an important supplement to the instruments of power and domination that are most commonly used in organizations, such as economic management and instrumental goal rationality. In fact, because of the dominance of such systemic rationality, the spheres of economics, law, and politics are often alienated from moral reflection.

Such strong distinctions between ethics, power, and economics have been criticized, because no social system can totally exclude ethics. For example, in cases where power also expresses an ethics - exactly the ethics of power - it is important from the point of view of organization theory to investigate how individuals in organizational systems are absorbed by their roles, which change into forms of forced domination and accordingly limit ethical communication. In many organizations, what is required of individual employees increases according to the general demands for growth and profits.[11] According to systems theory, this kind of power has consequences in mass society, where individualization and isolation make people who are outside of the functional systems and organizations in society feel even more lost. This need to belong to organizations and systems, combined with the increased pressure of the system on individuals in modern organizations, implies that

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9 OLE THYSSEN: *Værdiledelse, Om organisationer og etik*, København (Gyldendal) 1997, 1999 (3rd revised edition 2004).

10 OLE THYSSEN: *Værdiledelse, Om organisationer og etik*, København (Gyldendal) 1997, 1999, 2004.

11 *Ibid.*

systems and structures cannot avoid challenging the humanity of modern organizations.

Accordingly, ethical actors in organizational systems search for human solutions in order to avoid compromising human autonomy, dignity, integrity, and increasing vulnerability in modern organizations. Ethics and values-driven management express efforts to deal with organizations as well-ordered systems of action producing outputs and reducing complexity.[12] The difficulty of values-driven management in organizational systems is dealing with situations of limited resources and choices determined by necessity. With values-driven management, we integrate ethics in the logic of organizational systems of information. As ethical problems and dilemmas in relation to the confrontation between different stakeholders in the organization emerge, the logic of systems can no longer be based on system-immanent rationality, which is limited to the norms of instrumental rationality within the economic, legal, and political systems of organizational bureaucracy.

On the contrary, ethics can be conceived as a new instrument in the communicative process that deals with the solution to different types of conflict between stakeholders in organizations. Moreover, it also helps with organizational development and it creates a strategic vision for how to create the good life with respect for employees in the organization. Ethics in values-driven management is an important instrument to improve: 1) processes of decision making, 2) argumentation (providing a broader values foundation), 3) the legitimacy of decisions (for broader groups of stakeholders), and 4) the bases of decision making (transparency about decision-making processes). With these different concerns, management can ensure a broader ethical basis for decision making.

Accordingly, values-driven management may contribute to the democratization of organizations. Management contributes by recognizing the importance of employees for the decision-making process. Referring to Habermas's views of communicative action, values-driven management must be based on the force of the better argument and dialogical communication, where one is open to different points of view.[13] Such democratic communication between employees and managers may be conceived as a post-conventional form of management, which limits traditional hierarchical structures of power based on the personal conceptions of managers. From this perspective, management concerns the common good and decisions should be based on common democratic deliberation.

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12 *Ibid.*

13 JÜRGEN HABERMAS: *Theorie des kommunikativen Handelns I-II*, Frankfurt (Suhrkamp Verlag) 1981.

Values-driven management as an instrument for ethics may be particularly necessitated by the fact that we cannot know whether the vision of the common good in society is implied in organizational decision-making. Values are multiple and expressed at different levels of the organization, both internally and externally. It is the task of values-driven management to clarify the function of values in the organization and to determine what values are important for the future. From this perspective, we can perceive values-driven management as an important instrument to ensure communication between individuals with many individual conceptions of values. Values-driven management integrates ethics in general conceptions of management, thereby assuring that ethics will be central to organizational development.

This is illustrated by the role of values-driven management in change management.[14] Theorists of change management consider values as very important for developing the organization. Change processes are much more likely to succeed when they are governed by a strong vision, based on efforts to change the collective consciousness and identity of the organization. A vision of change management must be honest and convincing. This is possible when it appeals to ethics and a conceptualization of the common good and aim of the organization. Moreover, change management of values implies that the world is open and indeterminate, and that no standard bureaucratic picture of the reality of the organization can communicate the new values and deal with the complexity of changing the organization. In this sense, the soft vocabulary of values has replaced the bureaucratic vocabulary of instrumental rationality of efficiency and organizational imperative. In change processes, values-driven management implies an appeal to the system transcending character, radicalism, and creativity of proposing ethics and social responsibility as an alternative to traditional organizational governance.

An important social scientist whose work is also informed by the social theory of Niklas Luhmann is Susanne Holmström.[15] Similarly to Thyssen, her works starts with a discussion of the relations between Habermas and Luhmann, but where Thyssen concentrates on the internal dimensions of organizations, Holmström's work relates to external dimensions, in particular public relations.[16] Holmström begins with a comparison between the approach

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14 PETER BEYER: *Værdibaseret ledelse. Den ældste vin på nye flasker*, København (Forlaget Thomson) 2006, 2 udgave.

15 SUSANNE HOLMSTRÖM: "Two basically differing roles for public relations in the corporate practice of social responsibility", in: *Journal of Communications Management*, 1997.

16 *Ibid.*, p. 5.

to public relations in the work of Habermas and Luhmann. She argues that Habermas presents an ethical, communicative, and intersubjective paradigm with a post-conventional ethical legitimation of public relations, while Luhmann represents a functional, reflective, cognitive, post-traditional paradigm focusing on autopoeisis in the conceptualization of the institutionalization of public relations. She compares the utility of these two different paradigms for the understanding of public relations, considering the relation between life world and system. Habermas refers to the lifeworld rationality in understanding public relations, while Luhmann refers to the development of autopoetic systems of norms.

For Luhmann, meaning is generated in the evolution of the differentiation of biological systems. Meaning is an aspect of the development of the social system in its differentiation from the environment. Social systems have their own complexity and they are complex relations of differentiation with the environment. There is no overall theory of society, but society is the function of the effort of social systems to relate to their environments. Social responsibility, business ethics, and values-driven management are not overall theoretical constructions. They are, rather, instruments that corporations use to relate to their environments in an age of increased pressure of the environment on corporate social systems. Whereas Habermas emphasizes the importance of consent in the public sphere, Luhmann argues that dissent is the starting point for this interaction of corporate systems with their environments.[17] The driving force of the increasing differentiation of social systems is the creation of dissent. With their increasing complexity, social systems - according to Holmström - are becoming increasingly foreign to themselves. They need measures to interact with the environment. It is in this context that social responsibility functions as a symbolic medium in order to regulate relations between social systems.

While social responsibility, according to the Habermasian paradigm, functions as a kind of norm to relate the interaction between system and lifeworld, social responsibility, according to Luhmann, is an instrument to guide interaction between social systems.[18] In Luhmann's functional paradigm, companies enter the public sphere to represent their particular interests, while the communicative paradigm focuses on general public interest as the basis for legitimate public relations. Luhmann would argue that no collective perspective for society really exists.[19]

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17 *Ibid.*, p. 17.
18 *Ibid.*, p. 18.
19 *Ibid.*, p. 19.

In her attempt to conceive public relations from the perspective of Luhmann's theory of social systems, Holmström goes on to argue that CSR is necessary in a society where law and market forces are not sufficient to regulate the interaction between corporations as social systems. The institutionalization of public relations has moved from a strategic phase, through a normative phase (Habermas), to a cognitive phase where we can talk about the institutionalization of a new business paradigm as the foundation of the role of business in society. We can talk about ceremonial and symbolic forces as central to the legitimation of public relations. The functional logic of the CSR movement is the corporate construction of itself in relation to the environment. CSR and public relations both are ways of creating trust and are based on reflective self-understanding in a complex modern society. The new paradigm is characterized by an isomorphic pressure where companies seek to resemble each other in order to develop strategies for public relations.

The new business paradigm requires CSR, business ethics, and corporate citizenship as elements of legitimation of the corporation in society.[20] In the new paradigm, we see new norms for legitimate business behaviour, in particular the institutionalization of reflective practices and the enactment of public relations as ceremonial legitimation of the corporation. Holmström argues that we can in the so-called poly-contextual society conceive the emergence of new patterns of societal adjustment of corporations. Instead of the old Friedman paradigm of "The social responsibility of business is to increase its profits," the new business paradigm proposed by Susanne Holmström relates to the triple bottom line of sustainable development and references "people, planet, [and] profit." In the poly-centered society (as she calls it), there is a poly-contextual play of communication. With the theory of systems we can talk about a poly-contexual interplay between different social systems and public relations emerging as an attempt to reflect about these different functional systems and the relation between them. The new business paradigm of CSR refers to the poly-contextural regulation in hyper complex network society. The concepts of social responsibility and sustainable development help to increase the maintenance of society.[21] In this

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[20] SUSANNE HOLMSTRÖM: "The reflective paradigm. Turning into ceremony? Three phases of public relations – strategic, normative and cognitive – in the institutionalization of a new business paradigm leading to three scenarios". Paper presented at the 7th International Public Relations Research Symposium, Bled, Slovenia, July 7, 2000.

[21] *Ibid.*, p. 27.

context, we can say that we deal with the rationality of the "reflective business paradigm."

In the new business paradigm, CSR, values-driven management. and business ethics can be interpreted as elements of a "transitional organizational legitimation": as part of a poly-contextual, democratic regulation process.[22] Corporate citizenship, triple bottom-line, and stakeholder dialogue contribute to a poly-contextual self-regulation of corporations in a society that gives organizational legitimacy. This reflective paradigm of public relations refers to the global conditions of corporate functional and systemic reflectivity, and is thus framed by "cosmopolitan poly-contextualism."[23]

III. Leadership, Judgment, and Values

Ole Fogh Kirkeby who, like Ole Thyssen, works in the Department of Management, Politics, and Philosophy at Copenhagen Business School, operates within the phenomenological and hermeneutic approach to management.[24] This paradigm is very different from what is proposed by the system's theory of Thyssen and Holmström. Its proponents begin with human experience rather than with different interactions between systems. In his exploration of computer intelligence, Fogh Kirkeby's epistemological basis is a phenomenological analysis of the relation between cognition founded on the human body and the artificial intelligence of machines. His dissertation, *Begivenhed og krops-tanke: En fænomenologisk-hermeneutisk analyse* (*Event and body-thought: A phenomenological-hermeneutic analysis*), examines the perspective of classic phenomenological theoreticians and proposes a comprehensive analysis of human relations to the world. Starting

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22 SUSANNE HOLMSTRÖM: "The Evolution of a Reflective Paradigm: Public Relations Reconstructed As Part of Society's Evolutionary Learning Processes", in: B. V. DEJAN VERCIC, INGER JENSEN, DANNY MOS, JON WHITE (Eds.): *The Status of Public Relations Knowledge in Europe and Around the World*, Ljubliana (Pristop Communications) 2000, pp. 76-91.

23 *Ibid.*, p. 11.

24 Fogh Kirkeby has published three books, which can loosely be characterized as an existentialist approach to management: OLE FOGH KIRKEBY: *Ledelsesfilosofi. Et radikalt normativt perspektiv*, København (Samfundslitteratur) 1997; OLE FOGH KIRKEBY: *Organisationsfilosofi. En studie i liminalitet*, København (Samfundslitteratur) 2000; OLE FOGH KIRKEBY: *Det nye lederskab*, København (Børsens forlag) 2004.

from the notion of event and temporality as central for the human creation of meaning in the world, as well as from the unity of language, body, and world, Fogh Kirkeby integrates phenomenological epistemology with a synthesis of elements of the phenomenology of Husserl and Heidegger, which also includes elements of constructivism and deconstruction.

In his later work, Fogh Kirkeby has used the phenomenological method to develop a philosophy of management and theory of leadership. From a phenomenological foundation, he defines leadership as a new issue within management science and social science. Starting with the concrete responsibility of the manager, he aims to define the ethics and values that characterize good leadership. Fogh Kirkeby refers to the classical philosophical tradition, where leadership is realized through the different virtues of leadership that are realized in concrete situations. Fogh Kirkeby can be said to contribute to a phenomenology of leadership. By conceiving of management as a concrete human reality, he tries to capture the normative challenges that are required for good management and make it a normative theory of the virtues of leadership.

In his book *Organisationsfilosofi: Et studie i liminalitet* (*Philosophy of organization: A study in liminality*), Fogh Kirkeby has also developed this philosophy of leadership into a phenomenological theory about organizations. He attempts to delimit the organization as a community and describe its ideal characteristics based on its social virtues, ethos, and coherence. We can indeed perceive an attempt to map the imaginary aspects of the concept of organization by founding it in the normative principles of humanistic ideals and an ethos of social and leadership virtues, which constitute what is essential for the lifeworld and existential needs of the members of the organization.

The personal values of the manager should not be forgotten in the philosophy of management. It is important to recognize that the virtues and abilities of the manager play an important role for the implementation of ethics. In this context, an argument for business ethics is that business leaders need the recognition of society, which could be garnered, for example, by integrating respect for human rights or demonstrating corporate concern for the environment. The self-understanding and character of the manager is, in this regard, central for realizing business ethics and good leadership. In other words, good judgment and integrity need to be realized within the different parts of management. According to Fogh Kirkeby, corporations in post-industrial society are judged according to ideas other than economic performance, and ethics is an important part of the trustworthiness of service management.

Fogh Kirkeby has developed a philosophy of management that focuses on subjective management abilities in a classic virtue tradition.[25] Here, one might refer to leadership behaviour, where a hidden normativity about good and evil influences the actions of the manager. Fogh Kirkeby has developed a phenomenological paradigm of management that is founded on notions like communication, reflectivity, wisdom, experience, trustworthiness to the subject, and the ability to follow an ultimate set of values. The experience of contingency is the central foundation of this philosophy of management, which is built on the ability of human beings to do the right thing at the right moment. The good leader differs from the traditional manager by being related to his or her employees, not in a subject-object relation, but rather as subject-to-subject. Here, the good manager is defined as a person who appears as virtuous in relation to the community. Management becomes about personal virtue and is characterized by representing ideal types of action. The manager could be said to be determined by a habitus of virtues and by a concept of integrity, which determine the ethical actions of organizational governance.[26] Fogh Kirkeby refers to honest and reasonable communication, which - along with virtues and charisma - make the person responsible for the actions that govern the organization. Kirkeby argues that the virtues of the great charismatic leader imply fundamental responsibility and moral insight.

It is arguable that the manager is captured by the context of action and his possibilities as they appear in the concrete situation and that he can understand the situation in the perspective of relations like respect, care, engagement, common values, and common visions. The search for an ideal form of cooperation is based of the concept of the ideal manager. In this context, philosophy of management implies a search for the best virtues leading to a good experience of management, which would necessarily also have a moral dimension.[27] In this way, Fogh Kirkeby combines the conception of the role of the manager with the notion of values-driven management, where the leader - from the perspective of radical normativity - is determined by ethical values. It is not exceptional that Fogh Kirkeby, with his radically normative perspective for management, is determined by

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25 OLE FOGH KIRKEBY: *Ledelsesfilosofi et radikalt normativt perspektiv*, København (Handelshøjskolens Forlag) 1997.

26 The concept of habitus which is used by classical philosophy and reintroduced by the French philosopher Pierre Bourdieu indicates how an ability or virtue are internalized as parts of the way individuals are appearing and acting in the world.

27 *Ibid.*, pp. 103ff.

management as an event, since this fits with the legacy of classical Platonic and Aristotelian philosophy, where virtues become the ideal for good management.

In this philosophy of leadership, it is important to refer to the virtues of good government: temperance, courage, wisdom, and justice.[28] These virtues are conceived in connection with poetic senses and the ability to act with euphoria, pathos, and ethics, and in the ability to see through events to create the right destiny, which develops in relation to situation, context, continuity, history, and narrative. This can be perceived as the phenomenological interpretation of the traditional notion of process-management, where management is based on aesthetic energy, charisma, and communication. Fogh Kirkeby ultimately posits management as a form of crucifixion, since the manager must sacrifice him/herself and fight very hard for his/her project and visions.[29]

In my opinion, Fogh Kirkeby goes too far in his emphasis on the charismatic aspects of engagement in events, even though there are many interesting elements in his theory about the virtues of management and in his attempts to combine the habitus and ethos of the manager. While it is important to revive the virtues of the tradition of political philosophy and use them in order to conceive of good government, this should not end with conceptions of "totalitarian charismatic leadership," which emphasize the importance of the manager without seeing him or her closely in relation to the other members of the organization and in relation to organizational power structures. It is in this context that theories of judgment and ideal leadership are very important.[30] Indeed, it is important that those working in the philosophy of management and organizational ethics are conducting a close analysis of ethical judgment and the connection between responsibility and engagement in relation to theories of organization, as Fogh Kirkeby's proposed in his book, *Philosophy of Organization*.[31]

We can combine Kirkeby's approach with the perspective of the Kantian philosophy of reflective judgment, inspired by the French hermeneutic philosopher Paul Ricœur. When dealing with judgment in business ethics, we can apply the model as a framework for decision making and strategy.

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28 *Ibid.*

29 *Ibid.*

30 As in the philosophy of Ronald Dworkin regarding "law as integrity." JACOB DAHL RENDTORFF: *Bioetik og Ret, Kroppen mellem person og ting*, København (Gyldendal) 1999.

31 OLE FOGH KIRKEBY: *Organisationsfilosofi. En studie i liminalitet*, København (Samfundslitteratur) 2000.

It is the aim of judgment to evaluate the different conflicting concerns from the perspective of the "aim of the good life with and for the other in just institutions." Within this view of economic action, rationality is not based on the homo economicus concept of individual preference maximization, but rather on individuals who are integrated in social relations of reciprocity and exchange. This social notion of rationality places the economic actor within an ethical community of values. The firm must, therefore, be conceived from the perspective of broader institutional and social dimensions.[32]

We may say that it is the task of judgment in business ethics to find good and right decisions concerning action in economic affairs. Here, business ethics can learn a lot from the concept of legal and political judgment in the philosophy of law.[33]

In his analysis of judgment, Ricœur bases his analysis on Aristotle and Kant.[34] Practical reason assures the respect for the moral norms and basic procedural rules in a society, but because of the possible exceptions to the rules and the particularity of situations, practical wisdom and judgment is required as a necessary supplement. Practical wisdom is left alone in exceptional situations of difficult tragic dilemmas where universal norms are difficult to apply; however, in many cases concrete judgment is required to intervene in the application of general rules and values. Consequently, both faculties of human deliberation contribute to the work of the unfinished mediation between the ideal of the good life, and universal principles in relation to concrete situations and social traditions. Ricœur, inspired by Hannah Arendt in her book, *Lectures on Kant's political philosophy*, uses Kant's concept of judgment, which Kant put forth in his book, *Kritik der Urteilskraft*.[35] The Kantian understanding of judgment is an effort to apply the formalistic concept of practical reason to the situation and tradition of political community. Ricœur defines the work of judgment as a peaceful way of solving social conflict.[36] Here, general understandings and principles of justice are applied to concrete situations. The legal system, autonomous

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32 FRANÇOIS-REGIS MAHIEU: *Éthique économique, fondements anthropologiques*, Paris (Bibliotheque du développement, L'Harmattan) 2001, p. 314.

33 Hannah Arendt was very important for the development of this concept of judgment. See HANNAH ARENDT: *Lectures on Kant's political philosophy*, Chicago (University of Chicago Press) 1982.

34 PAUL RICŒUR: *Du texte à l'action*, Paris (Le Seuil) 1986, pp. 237ff. See also HANNAH ARENDT: *Lectures on Kant's political philosophy*, Chicago (University of Chicago Press) 1982.

35 IMMANUEL KANT: *Kritik der Urteilskraft*, (1794), Frankfurt (Suhrkamp Werkausgabe) 2004.

36 PAUL RICŒUR: *Juger*, Esprit 1992.

and different from, yet mediated through, public debate and political legislation implies a rational discourse about justice, where minimum mutual respect, human punishment, and recognition of basic rights - even of those to be punished - replace pure violence.

Accordingly, judgment is an important faculty to promote mediation and decision-making in the application of ethical principles in relation to concrete situations of economic decision making and action.[37] The Kantian concept of judgment extends the Aristotelian idea of practical reason (phronesis), which is the capacity of deliberation and reasoning for the good life in community according to the moral sense and habitus of the experienced moral actor. In this context, judgment finds the right place of action: the mean of virtue and consistency between extremes. Kant does not only consider the importance of the mean for finding the good life, but he also points to the moral sentiments and common morality of human beings (*sensus communis*).[38] Moral judgments find universal validity in the appeal to common sense and shared values held by human beings.

Determinate judgment is the capacity to apply already established general rules to concrete cases. Reflective judgment is the ability to find new rules for new cases where there are no pre-established rules or principles that are intuitively given or self-evident. Judgment in business ethics is only the application of ethical principles to factual cases. It should also be responsible for mediating between ethics and economics in relation to other disciplines of the social sciences, which are important for decision making and research. What is required in reflective judgment is moral imagination and the ability to integrate and weigh judgments offered by different disciplines and view-points regarding concrete decision making. Applied to decisions makers in the good citizen corporation, the faculty of judgment can be said to have two major finalities: 1) economic efficiency and 2) the finality of contributing to the integration and development of society towards the ideal of community as an end-in-itself.

Although Kant's reflective judgment primarily concerns aesthetics and natural teleology, one should not forget its significance for the concepts of political rationality and jurisprudence.[39] There is a logical and structural

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[37] LYNN SHARP PAINE: "Law, Ethics and Managerial Judgment", in *The Journal of Legal Studies Education*, Volume 12, No. 2 (1994).

[38] PAUL RICŒUR: *Juger*, Esprit 1992. IMMANUEL KANT: *Kritik der Urteilskraft*, (1794), Frankfurt (Suhrkamp Werkausgabe) 2004.

[39] PAUL RICŒUR: *Le Juste 1*, Paris (Èditions Esprit) 1995. PAUL RICŒUR: *Juger*, Esprit 1992. IMMANUEL KANT: *Kritik der Urteilskraft,* (1794), Frankfurt (Suhrkamp Werkausgabe) 2004.

analogy between aesthetical, political, and judicial judgment. The characteristics of judgment are a) mediation between particularity and universality in an intersubjective space, b) public deliberation, c) communication concerning judgments of opinion, and d) taste related to particular cases and founded on the common understanding of validity and shared values. Judgment as formation of political opinion, legislative act, and concrete legal processes can be conceived as an interaction between understanding, imagination, reason, and *sensus communis*.

Ricœur emphasizes the distributive character of judgment as a peaceful way to solve conflicts of ownership through discourse rather than violence. It distributes things and goods among individuals. It decides conflicts of ownership among individuals taking part in society as a system of exchange of goods. Here, judgment contributes to the delimitation between spheres in society. Judgment contributes to social peace by presupposing a vision of society as fundamentally cooperative, undergirded by a vision of community as a fragile and vulnerable "vouloir vivre ensemble." Still, conflicts about repartition of the good in different spheres of justice often also transcend shared understandings. Common visions of the good are often realized to be inadequate, and must be confronted with universal standards, individual autonomy, and disagreement with state policy, which can lead to civil disobedience in the name of divine law, and the corresponding "hard cases," which, according to Ronald Dworkin's analysis in his book, *Taking rights seriously*[40], are an appeal to rights and principles, and must be seen as the foundation for innovation and reform insuring legal coherence.[41]

It is the task of reflective judgment to mediate between different ethical fields. It is very important to have an integrated perspective on the relations between micro- and macro-levels of ethical reflections.[42] Therefore, it is

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40 RONALD DWORKIN: *Taking Rights Seriously*, Cambridge, Massachusetts (Harvard University Press) 1977.

41 This is this concept of judgment as formulated by Paul Ricœur (with the use of Ronald Dworkin's concept of principles) that is proposed as the foundation of decision making in business ethics. We find it also in the presentation of case examples, which can be considered as invitations to exercise practical judgment in business ethics.

42 The importance of moral imagination for ethical judgment in management and business ethics should be emphasized. Moral imagination is the place where judgment confronts ethical dilemmas and is capable of conceiving the possible scenarios of action and decision making. In business ethics, Patricia Werhane and Johanna B. Ciulla have produced analysis of the function of moral imagination as important for good decision making. JOHANNA B. CUILLA: "Business Ethics as Moral Imagination", in: R. EDWARD FREEMAN (Ed.): *Business ethics. The*

insufficient to focus exclusively on the ethics of the lonely "moral manager," the economic market, the business system as a structural totality, or of political welfare economics (based on allocation of goods and services by democratic political authorities). To focus exclusively on one of these fields of ethics may lead to negligence of important knowledge. Even though reflections on basic ethical principles and values of business should integrate these fields, the main focus of the present discussion will, however, be situated at the level of the firm. From this viewpoint we will discuss problems of tensions between economic efficiency and ethics at the other levels of the application of reflective judgment.

The aim of business institutions is, from the perspective of business ethics, to help realize the aim and vision of the good life within just institutions and to help improve fair co-existence in the framework of human community, conceived as a kingdom of ends-in-themselves, respecting human freedom and autonomy.

IV. Corporate Religion, Existentialism, and Kierkegaard

In Denmark, an ongoing criticism of business ethics and values-driven management has been the perceived danger of so-called corporate religion and a sort of re-enchantment with the values of the corporation. Although few organizations are totally spiritual in the orthodox religious sense, we find many management change projects that integrate spirituality in their organizational development. This spiritualization of corporations is not a return to Weber's traditional mode of legitimating, but rather an integrated part of a modern project of aesthetization and spiritualization of the discourse of management. We may say that the focus on values in the corporations (i.e., to make them be conscious of values and to refer to the vision and missions of the corporation) is made easy through the creation of collective spiritual values expressed through New Age mythology.

Spiritualized management allows for personal development and individual self-realization in corporations, rather than reducing human beings to work machines; employees are taken seriously as complex beings. From the New Age perspective of Eastern mythology, the justification for business ethics and corporate social responsibility are based in ideas of the soul. Each

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state of the Art, The Ruffin Sceries of Business Ethics, Oxford (Oxford University Press) 1992, pp. 212-221.

individual should demonstrate the capacity to take responsibility for him or herself, for their community, and for society. The anthropologist Karen Lisa Salamon argues that this position can easily be integrated into a neoliberal conception of the economy, because it is based on individualism. We see that it starts with the feelings and emotions of individuals and their spiritual understandings of themselves and their responsibility. Moreover, it is a dogma of the New Age movement in management that personal success is based on the holistic integration of spiritual, private, and professional life. This is why management has become "whole-life management."[43] Spiritual management is based on a kind of the law of Karma, where the journey into the self contributes to the enrichment of organizational life. Whole-life management helps to integrate the individual in the cosmos, to bring about a closer relationship between the self and the world.[44] The idea is that whole-life management integrates personal desire and the sense for the community so that the journey into the self will, in the end, be better for the common good.

An example of this kind of whole-life management can be found in the book *Corporate Religion* by the Danish marketing expert, Jesper Kunde. Kunde is a very good example of the New Age approach in his dissatisfaction with the secularization of business and with the demotivation of those working under increasing bureaucratization.[45] His work can be conceived as an effort to reckon with the dissolution of Protestant ethics in modern business. Kunde argues that clearly focused strategies, which are based on strong values, are conditions for corporate survival in a society of fragmenting values. Both employees and customers have to be bonded emotionally to the corporation, if the corporation is going to have a chance for survival and growth in a competitive world economy.[46]

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43 KAREN LISA SALOMON: "Nyliberal kosmologi", in: JOEL HAVIV: *Medarbejder eller modarbejder*, Århus (KLIM) 2007, p. 110.

44 *Ibid.*, p. 121.

45 JESPER KUNDE: *Corporate Religion*, København (Børsens forlag) 1997. English Edition: JESPER KUNDE: *Corporate Religion. Building a Strong Company Through Personality and Corporate Soul*, London (Prentice Hall, Pearson Education) 2000.

46 Jesper Kunde argues that corporate religion is nothing but a metaphor for the idea that the company should have a meaning, a direction, and an idea. Employees should learn about this idea through communication from the leadership, and this idea sets limits for those who do not want to be a part of the corporation. Companies with strong cultures are characterized by a relation to common values, as though they were a religion. Kunde argues that these companies are sometimes regarded by their environments as religious sects, and that this

Kunde argues for a return to a religiously based corporation and a strategy of corporate religion that is not only based in rational and economic bottom-line values, but that also grounds strategy and management holistically in the qualitative and emotional values of the corporation. According to this conception, "religion" (conceived as common visions, ideals, and ideology) is necessary for creating a well-functioning modern corporation. In a number of case studies of corporations such as Microsoft, Coca Cola, Walt Disney and The Body Shop, Kunde shows how these corporations can be said to operate according to a concept of corporate or brand religion, where the corporation is organized around strong common values and where the consumer is strongly emotionally related to the products.

This idea of corporate religiosity can be considered as a response to the lack of spirituality in modern management strategies - from scientific to total quality management. It is also a reaction toward the growing fragmentation and dissolution of work life in times where the Protestant ethos has been weakened. Without corporate religion it is not possible to tie together a corporation, which encounters many secular and multicultural challenges, to its corporate identity and unified culture. In order to cope with the loss of meaning in modern society, Kunde presents strong and very well-formulated values and values-driven management as responses to the problems of leadership in corporations. The firm should work with immaterial values in values-driven management by formulating its vision and mission in order to ensure commitment and action from its employees. The conscious religious strategy of values-driven management is about belief, community, strong management, and commitment and engagement in work. The product of the firm should be branded as something very special so that it is not just some other thing to buy: It should be endorsed by consumers as something vital for their identities and existence.

A very classical example is the American motorbike corporation Harley Davidson, which can be characterized as a corporation with a strong brand that understands the necessity to cultivate immaterial corporate values.[47]

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should be viewed as a good thing. It shows that a company has a clear idea and that this brand has been communicated efficiently to the environments. Kunde's concept of corporate religion is not designed to be cynical or nihilistic, but a rather loose concept, in the sense that "religion" means to have values and believe them. I think that this concept of corporate religion is, however, still problematic because the metaphor changes the corporation into a kind of religious sect with all the implications of manipulation, domination, and ideology that such a characterization entails.

47 Kunde's work take on corporate religion is first of all about corporate marketing and branding through the establishment of a strong value-based

Even though they are not necessarily better than other motorbike products, a Harley Davidson motorcycle is considered as much more than a simple motorbike. It is rather a lifestyle signifier, a form of identification, and possessing one is even viewed by many as the key to freedom and a part of achieving the American dream. At a time when the corporation was about to go bankrupt, Harley Davidson invented a new strategy whereby the firm focused on brand value, which, in this context, we might call the religious and emotional image of the corporation. They actively worked to create a community where customers and employees became emotionally linked to the firm. We might even say that they were encouraged to become disciples of the congregation of Harley Davidson.

Kunde draws our attention to the branding and strategy of the cosmetics company The Body Shop. The Body Shop operates as a political company, which has been able to combine the political and the religious content in the image of its products. Their brand is not only about selling cosmetics but they are perceived as a knowledge-based company, which uses its product to encourage an environmental consciousness and lifestyle among its customers.[48] With the concept of "caring cosmetics," The Body Shop has produced cosmetics as a specific brand value for customers. The firm uses its products to signal larger political values and ideals and to connect them with strong emotional content. In this sense, The Body Shop has turned its green profile into a religion.

We can mention many other examples of companies that have worked to foster immaterial values, who have increased the emotional significance of their brand and their products for customers, and that also have intensified employee motivation. As mentioned previously, it is the task of corporate

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culture, creating a company with a religious soul or spirit. The internal personality of the corporation is conceived as important for creating a good image from the outside, as Tom Peters, who uses the work of Jesper Kunde, has said. From the marketing perspective, corporate religion is first of all about creating the illusion that the company has a soul so that the company can appear as a good corporate citizen in the public. The issue of corporate responsibility is important, but this concept of corporate religion seems to address emotions and appearance instead of focusing on the real ethical and political issues regarding the reputation and appearance of the corporation in society. Looking at this creation of the soul of the company as a branding instrument, it is tempting to agree with Gilles Deleuze that "si l'entreprise a une âme, ce serait la plus pire des choses," implying that it would be an impossible situation to have corporate consciousness without corporate morality. However, it should be emphasized that there is a close link between collective action and ethical responsibility.

[48] JESPER KUNDE: *Corporate Religion*, København (Børsens Forlag) 1997, p. 46.

religion to link the customers to the firm by emphasizing that the products of the firm are expressions of attitudes and values. In this context, corporations organize events and other initiatives (e.g., making slogans that contribute to the promotion of a lifestyle through the image of the firm) in order to ensure the loyalty and emotional binding of individuals to the firm.

This ideological and strategic concept of corporate religion as the basis for promoting the legitimacy of corporations in modern society is based on a number of simple values and statements, which are imbued through all levels of the organization through its mission statement. This mission statement should function like a Bible for the corporation.[49] In the fight to establish an emotional engagement among employees and customers in the firm, it is important to work with simple and strong formulations of values in order to give the vision and mission of the firm strategic power and weight. Moreover, it is important to emphasize that corporate religion, based on a powerful and charismatic style of leadership, is an important condition for realizing the values of the firm. As a strong leader, the manager and CEO must present him- or herself as an incarnation and symbol of the values and personality of the totality of the corporation.

In strong opposition to the idea of corporate religion we find the existentialist approach to management, which considers corporate religion as purely manipulative. This existentialist approach to business ethics has been proposed recently by a number of authors, including the provocative young consultant Kirstine Andersen, in her book *Kierkegaard and management*.[50] These authors are trying to apply existentialist thinking to the relations of management and work life. An existentialist approach to management can, at the same time, be considered as continuing to search for a deeper meaning to business life. Existentialism in management refuses to reestablish a mystical new spirituality, but rather the aim is to make the existentialist search for individual meaning the basis for the social legitimacy of the firm.

From a critical view of capitalism we can, however, ask whether there is an existentialist philosophy of management. Critical authors would state that existentialism and management cannot be combined and that this approach is an indication of an ideological use of existentialism to justify management. They would say that there is no room for singular existence

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49 *Ibid.*, p. 122.

50 Here, it is useful to refer to the work of psychologist Karen Schultz. KAREN SCHULTZ: *Eksistens i arbejdslivet. At skabe mening for virksomhed og medarbejder,* København (Hans Reitzels forlag) 2000. And finally a book applying the philosophy of Søren Kierkegaard to management: KIRSTINE ANDERSEN: *Kierkegaard og ledelse*, København (Frydenlund) 2005.

and search for meaning in the large contemporary economic organizations and social systems. It looks very difficult to reestablish the individual meaning of life within the modern organization of work and it seems impossible to unite the private search for existential and religious meaning with specific work requirements in large organizations. This existentialist approach can be seen as a response to a Protestant ethics based on the search for meaning in organizations with the recognition of the conditions of economic life in modernity.

Inspiration for basing corporate legitimacy on the existentialist calling can be found in the work of Søren Kierkegaard.[51] Kirstine Andersen argues that Kierkegaard contributes to understanding management and governance by providing a poetic language of the working life.[52] In existentialist philosophy, the search for dialogue and communication implies confidence and engagement with other human beings. Existentialism takes seriously the original signification of being a director, namely to search for a direction in existential terms. The manager is somebody who points to the direction of life and the experiences of life in organizations are concrete and existential. Existentialism can help us to perceive this concrete life in organizations. In the existential sense, managers are confronted with something larger than themselves when they have to make important decisions. Managers are choosing themselves and the situation when they make large decisions. They would have to deal with their professional life from the point of view of their existential engagement. Because it is impossible to ignore personal life and existence in professional life, its legitimacy is dependent on a harmonious relation between the personal and private convictions of individuals.[53] Moreover, existential management is about recognizing the importance of human dignity and respect for employees and other stakeholders as human beings with infinite value.

Applying existentialist philosophy to management we can resume the existentialist challenge of management: The task of the manager is to come to terms with the fact that his/her role is a condition of life that he cannot escape, which is also a fact for the other human beings who are subordinate. Given this condition of his existence, the manager cannot avoid being forced to become him- or herself with a certain character, set of values, and particular conceptions of life. Indeed, it is an existentialist requirement not to forget to respect other human beings as "goals in themselves," persons

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51 SØREN, KIERKEGAARD: *Samlede Værker 1-20.*, København (Gyldendal) 1994.

52 KIRSTINE, ANDERSEN: *Kierkegaard og ledelse*, København (Frydenlund) 2004, p. 7.

53 *Ibid.*

with dignity and humanity. This fundamental responsibility expresses the fact that the ethical challenge is greater than the individual. There is a requirement of the ideality of the infinite in the ethics of existentialism, which assumes that moral and ethical choice involves existential engagement for the individual. As such, the strategy of legitimacy in existentialism implies a return to the personal conscience and engagement of the individual behind the mask of professional life as the basis for real professional commitment and responsibility.

As a modern version of Protestant ethics, existentialism puts the value of personal responsibility for one's action in the center of corporate legitimacy. But at the same time, the kind of existentialism that is proposed is in danger of loosing its roots in the critical attitude towards corporate life and becoming a new philosophy of meaning in the corporation, which after all is based on New Age philosophy. This would be the end of existentialism, which means that the approach can indeed be criticized. Can we really build professional life on personal values? Isn't it better to work with strict separation of spheres of values, of ethics, law, economics, and religion?[54] In this sense an existentialist turn in business ethics is dangerous because it moves from formal rules of professional life towards individual emotions and conceptions that are outside the objectivity of professionalism. However, the counter argument is that you cannot separate personal responsibility from public functions and that government and management is a kind of decision making, which implies great personal responsibility, accountability, and integrity.

The question arises whether this reintroduction of the individual and his or her responsibility to the center of management in the existentialist approach inspired by Kierkegaard, does not hide some new forms of subjugation and domination that pose the danger of becoming a new kind of corporate religion. This may require analyzing these new kinds of management as forms of power. As Michel Foucault has shown, power is not always coercive. It has to be more subtle to remain strong. Governmental power can, in this sense, include responsibility and spirituality by manipulating the liberty of the employees. There is not, as such, a contradiction between power and liberty. On the contrary, power becomes more intense and efficient if it is not limited to individual initiative (i.e., the possibility to decide and to resist) but rather is based on individual freedom, action, and the search for meaning in life. The placement of the individual in the center of management in corporate religion and in the existentialist search for meaning can, therefore, still imply powerful discipline and coercion. Thus, modern technologies of

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[54] ANDRE COMTE SPONVILLE: *Le capitalisme est-il moral ? Sur quelque ridicules de notre temps*, Paris (Albin Michel) 2004.

management have understood that it is important to insist on spiritualization and individualization of management. As the sociologist Richard Sennett - a close friend of Michel Foucault - has shown, the organization of work leaves a hierarchical structure of traditional government in order to substitute this power with a more subtle, personalized, and polycentric form of management. Without opposing the importance of an existentialist criticism of the concept of corporate religion, these contemporary approaches are very powerful as expressions of the hidden discipline of management technologies.

V. Conclusion

In conclusion, three approaches to organizations and ethics in Denmark have been emphasized. Indeed, it may be argued that these conceptions are mutually reinforcing and tell a story of the key elements in a philosophy of management. Accordingly, we can emphasize three important dimensions: 1) A general theory of organization, which is built on systems theory and polycontextual understandings of the relation between firms and their environments. 2) Conceptualization of a concept of leadership as opposed to management, which implies a discussion of the role of the good leader and how the virtues of integrity, dignity, and judgment can be determinants for the right development of organizations. 3) Understanding how the strength and power of discipline are hidden in the management technologies of corporate religion and existentialism. The general conclusion is, therefore, that these elements of theories and conceptions of the philosophy of management can help contextualize the importance of the emergence of corporate citizenship, CSR, business ethics, and values-driven management in the Danish context.

Part B

Organization Theory, Organizational Practice, and Philosophy

Chapter 3

Critical Realism, Organization Theory, Methodology, and the Emerging Science of Reconfiguration[1]

STEPHEN ACKROYD

I. Introduction

In recent years a body of scholars and researchers working in the field of organization and management studies in Britain and elsewhere have been following academic agendas avowedly supported by realist philosophical ideas. Among other things, realist-informed researchers have investigated the configuration and reconfiguration of public and private organizations and, more broadly, the formation and re-formation of structures describing

[1] Earlier versions of sections of the following arguments have appeared in publications by the author as follows: *'Realism'* in: *The International Encylopedia of Organization Studies*, edited by S. Clegg and J.R. Bailey, London and California (Sage Publications) 2007; and "Research Designs for Realist Research", in: *Handbook of Organizational Research Methods*, edited by D. Buchanan and A. Bryman, London (Sage Publications) 2008. Tables 1 and 2 are reproduced here with permission of the author and the publisher.

P. Koslowski (ed.), *Elements of a Philosophy of Management and Organization*, Studies in Economic Ethics and Philosophy, DOI 10.1007/978-3-642-11140-2_3,

the framework of capitalist institutions.[2] Significant contributions to social science in these areas have been made, including, it will be argued here, the establishment of cumulative results. With these developments as its focus, this chapter considers systematically what makes this new work distinctive. Although philosophy has made no direct contribution to the accumulation of knowledge in these fields, it is difficult to imagine the research having taken the form it has, or having been so effective had it not been informed by knowledge of realist philosophy. In this chapter, the philosophy is considered first; and only then the theory and methods typically employed by researchers. The type of account of organizational and social change that has been produced – and which is the basis of the social science contribution of these developments – is only broadly outlined. The contribution of the chapter is that it aims to clarify how this approach to social science works, and to point to the character and role of its associated logics of scientific discovery.

In some ways the intellectual movement whose products are discussed here is misrepresented. An analytical rather than a sociological or cultural account is offered. This begins with a consideration of philosophical matters; then, discussion proceeds to the examination of theory and research. In practice, of course, events were not quite like this: the philosophy was not fully worked out in advance. An implicit social realism had been widely shared in social science for more than a century, but this was not usually explicitly formulated. What is different in recent decades is the exploration by some academics of an explicit set of realist philosophical doctrines,[3] which were also self-consciously utilised (to a greater or lesser degree) by a broader group of practitioners in the field of organization and management studies. For most academics associated with the new movement, the need to research particular institutions was primary. Only subsequent to actual research effort, and more recently, in the last decade or so, has there been a widespread and sustained philosophical reflection on the results obtained; and the beginnings of a concern for the philosophical implications of research

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2 For some recent contributions, see: S. ACKROYD and S. FLEETWOOD: *Realist Perspectives on Management and Organization Studies*, London (Routledge) 2000; B. DANERMARK, M. EKSTROM, L. JAKOBSEN, and J.CH. KARLSSON: *Explaining Society: Critical Realism in the Social Sciences*, London (Routlege) 2002 (= *Explaining Society*); S. FLEETWOOD, and S. ACKROYD (Eds.): *Critical Realist Applications Organization and Management Studies*, London (Routledge) 2004: A. VAN DER VEN: *Engaged Scholarship: A Guide for Organizational and Social Research*, Oxford (Oxford University Press) 2008.

3 R. KEAT and J. URRY: *Social Theory as Science*, London (Routledge) 1975; R. HARRE: *The Philosophies of Science*, Oxford (Oxford University Press) 1972 (= *Philosophies*).

practice in these fields. Thus, it is primarily in the interests of orderliness that the sequence: realist philosophy > realist-informed theory and method > actual research projects is utilised in this chapter to investigate developments in organization and management studies. Today, for better or worse, however, this is how many new researchers and existing practitioners are approaching their work. This is the way advanced students are taught in universities these days: philosophy first, followed by the implications of these ideas for thinking about the social world and for researching it.

II. Critical Realist Metaphysics

There is no need to give an extended introduction to realism for readers of this volume. The standard accounts are by Roy Bhaskar, Andrew Sayer and others.[4] The approach is often named critical realism to differentiate it from the other varieties, most obviously, naïve or empirical realism.

Realism is the doctrine that things and events exist independently of the knowing subject and that reality has consequences for events. This notion of the reality of the world is sustained by realists even following recognition that there is much that is immaterial, and indeed many of the most important things we know and think exist (truth, love, organizations) are not known to us directly from sense experience, but are known as mental constructions built from the interpretation of what we perceive and the concepts available to us. There is, thus, little difference analytically between commonsense and scientific knowledge, except in the degree to which concepts are critically appraised and the scrupulousness with which they are tested against the available evidence. Obviously it is important to distinguish between naïve realism, which assumes the world is as it is perceived to be, and reasoned or critical realism which postulates that an external world exists, but that obtaining reliable knowledge about is not straightforward. For the reasoned or critical realist, the development of knowledge is often a matter of undertaking research to replace (or, more rarely, to substantiate) received ideas.

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4 R. BHASKAR: *A Realist Theory of Science*, Leeds (Leeds Books) 1975, second edition: Brighton (Harvester) 1979 (= *Realist Theory*); A. SAYER: *Realism and Social Science*, London (Sage Publications) 2000; M. ARCHER, R. BHASKAR, A. COLLIER, T. LAWSON and A. NORRIE: *Critical Realism: Essential Readings*, London (Routledge) 2004 (= *Essential Readings*); R. BHASKAR: *Scientific Realism and Human Emancipation*, London (Verso) 1986; R. BHASKAR: *Reclaiming Reality*, London (Verso) 1989.

Contemporary realism in management organization studies draws heavily on contributions to philosophy, most notably the work of Bhaskar.[5] Unlike some philosophy of science, realism is centred on ontological doctrines about the way the social world is constituted. In this view, the social world (including, inter alia, institutions, organizations, classes, economic systems and societies), is a product of human action and it exists only in and through human activity. However, recurrent social relations give rise to institutions and other kinds of structures which will, in their turn, shape behaviour. Realist social ontology is therefore said to be inevitably dualist: envisaging individual action (including mental states and dispositions to act) and relationships and structures with emergent properties sui generis that have effects external to individuals. Thus, cycles of production, reproduction and transformation of social relations and structures are envisaged, but because of the discretionary actions of particular groups and contingent circumstances, the form these may take is not entirely predictable from what has happened in the past. The social world is, in this view, a highly complex, open system, which may be only partially known; rather than a closed or finite one which may be fully understood. It is for this reason that precise predictions are not often possible. For this reason too, not to mention practical and ethical problems, experimental manipulation of research subjects is impractical.

A key conviction of social scientific realism, then, is that social phenomena – which individuals help to reproduce by their everyday activity - may nonetheless exist without the actors involved conceptualising them; and that, whether self-consciously acknowledged or not, such emergent properties can and do affect behaviour in ways that are to some extent comparable to material processes. This point divides critical and social realists from other theorists in social science and organization studies, who see social phenomena as only or entirely constituted in discourse, and that they necessarily only affect behaviour to the extent that they are subjectively conceived by the people involved. It is the ontological principle, that social reality is to a considerable extent external to individuals and groups and affects social behaviour, that is basic to social scientific realism, and this distinguishes them from others in the field, including many positivists. On the other hand, social science realists are not necessarily realist in epistemology. For social scientific realists, the world as it may or not be constituted is quite distinct from the accounts of it that may be available or which may be constructed. There is an unavoidable and necessary distinction between the things and events in the universe as they are and the descriptions or accounts of them. The distinction cannot be removed, and because of it knowledge of the real

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[5] *Realist Theory*.

world is always only approximate and provisional. The universe is assumed to be both complex and infinite in extent, while accounts of things (including science) are necessarily limited, constrained by the modes of expression and calculation available.

However, there can be highly effective representations of things which describe the real world. What distinguishes these accounts is that, although they necessarily simplify complexity, they may sacrifice little in terms of accuracy. A map or a model is a useful metaphor for what is envisaged. A map is a simplified representation of some territory; but is, nonetheless, a reliable guide to features of the landscape. Mapping also shares some of the features realists are likely to attribute to the process of knowledge creation, in that it is collective and ongoing as a practice and an achievement. Early maps were crude by comparison with today's resources, and early maps have clearly been improved by later advances. Be that as it may, it is held that social science may work in this way as an account of key aspects of things, which can provide reliable guides to the way processes work and produce particular outcomes. Thus, although social processes may be complex, specific features of them may be grasped theoretically, and validated (or not) empirically; and in this way research provides a route to improved knowledge. Looked at like this, a realist project in organization and management studies implies abandoning commonsense or widely accepted representations of organizations and events taking place in them, in favour of drawing selectively on these and other materials to understand the real causes of particular outcomes.

Hence realist-informed research projects involve the idea that there are causal relationships in which, for instance, event x is caused by antecedent event e (or much more likely, the combined effects of events e1 to e n). However, the causal efficacy of a relationship is not given by empirical conjunction. The realist relies instead on accounts of cause that attribute tendencies and powers to people and groups that are in turn effectual in producing changed behaviour and new events. Indeed, in any given situation there are, typically, complex chains of events, constituted by the combined properties and tendencies of individuals and social groups, which can be revealed to follow particular and identifiable recurrent sequences. This idea of cause is not far removed from commonly accepted notions about causal process, such as those involved in juridical discussions in which the actual sequence of events is invoked to establish the legal responsibility of particular parties. However, in realist social science discussions, the sequences invoked are not described in everyday terms; and the special conceptualisations of the social relations, processes and structures devised by researchers are used and cited in such accounts. Indeed, in such sequences, the emergent

properties of social entities normally feature. Thus there are complex processes in which many groups and individuals are involved, but which cause regularities and specific outcomes. To perceive these and indeed to set limits on the task of validating them, researchers also conceive that such sequences work themselves out within, and are partially shaped by, their context.

In this conception the role of theory is to propose what are (largely hidden) causal mechanisms or generative processes, and isolate these from other features. The role of empirical research is to consider the evidence that suggests a particular causal mechanism might be at work and in what way it may be thought of as integral and separate from the social matrix in which it occurs. Hence, although a given causal mechanism may be shaped by a particular context, it is sufficiently independent from that context to be recognised as distinctive, detachable from it and to be discovered at work in other contexts too. The context of a mechanism may be seen as some but not all of its necessary preconditions. Thus a theory of inflation has as a necessary context a cash economy and a developed commercial system, although these are not acknowledged in the theory itself which refers only to such things as to the volumes of goods and the quantities of money and the behaviour of consumers and so on. Similarly a theory of the consequences of managerial action has as its conditions the existence of modern employment, labour markets and large, employing organizations. Clearly, there are necessary limits to the extent to which contextual features can be enumerated, and the realist approach implies any search for antecedent conditions is limited to the identification of that are critical to particular outcomes.

Considered in its elements, to explain an observed regularity or typical outcome is to see it in relation to a set of causal events (i.e. a generative mechanism), which is conjectured to be working itself out in a given situation (its context). Thus, we arrive at the formula: the explanation of regularity (r) = mechanism (m) and context (c), or r = f (m, c).[6] There is, however, a series of possibilities concerning how simple formula may be realised in actual examples. As we shall see, what is mechanism and what is not is the subject of investigation by research. It is a critical observation that, although both accounts of mechanism and context are necessary to explanation, realist research is designed to reveal mechanisms and must therefore be undecided at the outset what the limits of any mechanism may be and how it differs from other aspects that need to be considered. Indeed,

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[6] Some would object to this way of accounting for the relationships involved. See also the account offered by R. PAWSON, and N. TILLEY: *Realistic Evaluation*, London (Sage) 1997, pp. 55-82.

research must be understood as an iterative process in which conjectures about mechanisms are tested against findings, and findings are construed as indicative of the operation of mechanisms or parts of the relevant context. The ways in which different research designs prioritise aspects of explanation, and how they embody particular logics of scientific discovery, are matters considered later in this account.

Table 1. A Comparison of the Positivist and Realist Logics of Discovery in Research

	The conception of explanation - something is explained when it is:	The process of discovery - theory is induced by:	The process of knowledge construction - knowledge is improved by:
POSITIVIST			
Inductive	A reliable generalisation from well-attested data. (A 'valid' sample required.)	Systematic data collection + the use of inductive techniques to produced valid generalisations.	Searching for associations between variables and comparing with the probability of a chance outcome.
Deductive	A conclusion deduced from known premises or theoretical postulates.	The production of law-like statements in an abstract form, from which further testable postulates are inferred.	Testing propositions deduced from theoretical postulates. Trying to refute laws by showing predictions false.
REALIST			
Abductive	An elemental account of a basic process or mechanism, or something that is seen as the product of such a mechanism.	Generated using the everyday concepts and ideas of participants + recognition of the powers and tendencies of entities.	Building accounts of how generative processes work themselves out in given contexts.
Retroductive	An account is established as a distinctive process, and the conditions of its existence have been elaborated.	Answering the question: What are the conditions for the existence of this process?	Locating accounts of particular generative processes in a broad socio-economic.

Realist explanation combines theoretical elements (conjecturing the existence of mechanisms) and empirical evidence (specifying mechanisms or showing that they are/are not operative), but explanation does not depend mainly, as in positivism, on logical inferences from theoretical postulates (i.e. deduction) or generalisation from evidence (i.e. induction). Explanation is concerned with showing the working of generative processes or mechanisms and is essentially either abductive (construed as part of a particular pattern or sequence) and or retroductive (in that the conditions of the existence of a mechanism are identified).[7] It is argued that just as in positivism an account of the research process involves in practice reference to both deduction and induction, so an adequate account of realist-informed research in practice involves reference to both the imaginative construal of events as constituting patterns (abduction) as well accounts of the necessary conditions for the existence of such patterns (retroduction). The essential features of these different logics are set out in Table 1, and will be elaborated later in this chapter.

III. The Conception of Theory

There is of course no such thing as inherently realist theory because theoretical ideas cannot be inferred from realist philosophical postulates. Theory is the construction of conjectures about the nature of mechanisms often cast in general, idealised and/or substantially de-contextualised forms. Thus, philosophy generally construes the world; but says little of the particularities of that world. At best we have theoretical ideas that illustrate or exemplify philosophical postulates. The new wave of researchers influenced by realism are therefore often working with and developing different theoretical accounts, sometimes of similar phenomena. However, to develop the argument, the discussion will consider an example of general theory that can address both organization and management in the morphogenic theory of structuration

[7] There are differing accounts of the logic involved in realist explanation, and new ideas to which this chapter also contributes are currently being formulated. (See also *Explaining Society*).

developed by the social theorist, Margaret Archer.[8] This proposes the production and reproduction of structures by the activity of agents. Archer's work contains a useful summary account of the relationship between what she calls agents (not necessarily individuals) and structures. She sees agents and structures as reciprocally related: agency produces structures and these, in turn, provide the context and conditions for further action.[9]

For Archer the agency / structure relationship is essentially dualistic: structure is not reducible to agency, nor is it the aggregate of the action of all agents, but is an emergent property with its own characteristics. Structures are the emergent property of action but, because structures provide the context for further action, existing structures are formative of the activity of groups and circumscribe what they can do. With this approach, the relative resources and powers of groups is the indispensable key to understanding social reproduction (the predominant tendency) and change. Some groups are better placed to take action which induces change. Archer distinguishes between 'corporate' and 'primary' agents. Primary agents are such because they only have the capacity to contribute to the reproduction of the structural conditions in which they exist, as all people have. However, their participation in relationships and institutions allocates them to roles which allow them little freedom to act other than in highly prescribed ways. They typically do not mobilise the agency of others. By contrast, it is possible to distinguish corporate agents whose roles allocate them greater discretion, and they can influence the conditions of interaction for many others. Corporate agents sometimes act for a group, and acquire its agency. An example is where managers not only have greater discretion in their work, but they may act in the place of the organization itself, assuming its legal identity and using its resources. Thus they may either act in a way that reproduces the status quo or, by utilising their powers as corporate agents, act in ways that produce change.

This approach offers an account of the nature and origin of organizational forms that suggests agency is always central to change and this does not only occur when adjustment to the environment is required. From this theoretical viewpoint, the structure of an organization emerges from the

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8 M. ARCHER: *Realist Social Theory: The Morphogenetic Approach*, Cambridge (Cambridge University Press) 1995 (= *RST*).

9 *RST*, pp. 247 – 293; A. GIDDENS: *The Constitution of Society: Outline of the Theory of Structuration*, Cambridge (Cambridge University Press) 1984; R. STONES: *Structuration Theory*, Basingstoke (Palgrave) 2005.

ongoing relationships between people and groups in the organization.[10] It has stability because most participants are primary agents who are structurally disadvantaged, but who nonetheless contribute to the reproduction of the organization. A point to make is that different categories of participants have different powers and resources (not to mention different conceptions of their situation and their interests). As a result, relationships in the organization reflect the continuing subordination of some groups, compromises between groups of more weight of expertise or other resources, but also the hegemony of organizational elites. In sum, structures express the relative powers between groups with different agential capacity and command of resources. However, structures do not necessarily change in a straightforward way as the balance of power shifts between them – for example, as implied in the resource dependency theory of Pfeffer and Salancik.[11] From this viewpoint, an organizational structure is functional only to some unspecified extent. We only know for sure that a given structure is effective enough for the organization to survive in the prevailing economic and social conditions, given the accounting and control procedures usually applied in that context.

The realist view of social science accounts for the sense individuals have of being constrained and/or enabled by their circumstances. Realists would discuss their capacities in this respect in terms of the existence of the structures in which they are located, and which advantage or disadvantage them. These structures are held to be not simply a product of the discourses in which people engage, but have their own distinctive real properties. Even the simplest of relationships may be considered in structural terms. To repeat a frequently used example, there are structural elements arising between two people waiting for a bus. This queue has a structure produced by the reciprocal awareness of the participants as people in the queue. As they anticipate boarding, they act in relation to each other and this constrains their participation. The elements of structure to be seen here can be ignored by the participants, and if this happens the structures also may disappear, but few structures have these properties. By contrast, more complex forms or sets of relationships cannot be unilaterally dissolved because they involve many parties whose assumptions and actions sustain them irrespective of the attitudes of individuals. This observation explains much about the formative properties of collective social forms. Institutions, which we may understand as complex sets of relationships that have become traditional are correspondingly

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10 S. ACKROYD: *The Organization of Business*, Oxford (Oxford University Press) 2002.

11 J. PFEFFER and G.R. SALANCIK: *The External Control of Organizations: A Resource Dependency Perspective*, New York (Harper and Row) 1978.

even more difficult to dissolve, in that to break them down requires the agreement of several parties to act against their habitual practices, and also others external to the institutions to abandon their expectations about the likely behaviour of central participants. In addition, we must note that all structures embody power. That is, they have the ability to reward and to motivate and to punish or otherwise coerce.

In this realist conception of relationships involved in management and organization, the perpetuation of existing institutional and organizational patterns illustrates the exercise of power because it is the perpetuation of advantage and disadvantage through social reproduction. Institutions tend to persist despite the fact that they involve the unequal distribution of duties and benefits to different individuals and groups, and despite the views of many of the participants in organizations. Considered in this way, a realist informed theory of management sees it as central to the processes of organizational reproduction and change. It is probably accurate to say that the occupation owes its existence to acquiring its status by willingness to adopt responsibility for the task of coordination and control in organizational structures. Certainly the managerial cadre in any organization is a group whose role is to coordinate the activities of the individuals and groups within the organization, and through this to achieve the survival and, if possible growth, of the organization that employs them. Managers mediate the sectional interests of different groups - all of which would like to increase their share of the yield from organizational activities. In the process, managers come substantially to define both the interests and the nature of the emergent entity that is the organization, and to control the emergent properties of the entity as a whole.

A final point about the current realist realist-informed approach to management studies is how central theorising and conceptualisation is to the activity. The matter to be studied – a generative process – is a theoretical conjecture, and as such it involves describing or re-describing the entities and processes contained in the matters of interest. In this view theory-making is not and cannot be a purely abstract activity, but is rooted in the particulars of a situation, and what is known of the activities and outlooks of groups. The aim of theory construction may be to make statements that are generally true, but it begins from the focussed study of particular things and events. Thus, the adequate conceptualisation of events and processes is the basis of any claim to general truth. The true account is the essential matter abducted - or taken away from - the particulars studied. Empirical study, however focussed, is always undertaken either to establish an account of a basic mechanism or to explore the limits to the applicability of such a theoretical conception. Thus the approach suggests that there is not any

innocent observation, and indeed observation itself is understood to be, of necessity, conceptually saturated. In these circumstances the growth of indubitable knowledge is obviously problematic. On the other hand, the circle of determination in which concepts define what is known empirically, which in turn shapes the accepted concepts is not so tightly closed as to allow no escape. Among other things, research can lead to the discovery of findings that confound as well as corroborate existing concepts and conjectures. This leads naturally to the consideration of the kinds of research procedure commonly adopted by realist-informed researchers, and the consideration of what they contribute to the process of knowledge construction.

IV. Methodology

It follows that the role of methodology in research is to assist the search for evidence that establishes, confirms or calls into question the existence of postulated generative mechanisms. Research is theoretically driven because prior conceptualisation governs the way events are appraised. Events and the research that organises them are considered in terms of their being indicative of possible causal mechanisms. This governs the perceived usefulness of existing work and dictates the direction of fresh enquiry. Here methodology tends to be under-labourer to theory, and research takes place against the background of a particular construal of existing knowledge. The assumption is that existing relevant findings should be appraised before new research is undertaken – and much realist work does involve critical reappraisal of work already undertaken to assess its significance in relation to postulated generative processes. Evidence tends to be taken as important (or not) because it is indicative (or not) of a specific theoretical account and its reliability as evidence is often considered to be a subordinate problem. In short, there is little independent attention paid to the question of the qualities of the evidence on which existing knowledge is based. The contribution of techniques of data collection and evaluation to the development of knowledge has been, to date, regarded as relatively unimportant.

Features of the approach outlined above help explain why often methodology is not taken to be a legitimate technical competence for realists. Indeed much methodological discussion by realist researchers is disappointing; it often does not come around to the consideration of which particular research techniques are useful and may be utilised with a reasonable expectation of good results. However, much social science methodology has been

developed under the auspices of positivism – or, more recently, radical constructioniusm[12] - which is judged inappropriate by realists. Be that as it may, consideration of research often proceeds with arguments about the way research should be cast. Thus we have what can be described as the ontology of research, without much discussion of research strategies and designs, without much attention to the utility of procedures or the details of usable techniques. Until recently analysts were content to deal with the broad distinction between 'intensive' and 'extensive' research, with the suggestion that both have their uses, though there is in practice a bias in favour of intensive studies featuring qualitative data. A distinction between these approaches originated in the work of Harre.[13] Since then, identifying intensive and extensive designs has been retained by realist commentators as a way of differentiating approaches to empirical research. Notable commentators who have adopted this categorisation are Sayer and Danermark et al.[14]

This distinction is increasingly problematic for realists, not least because there are numerous possibilities under these general descriptions. Table 2, which sets out some of the designs used in selected realist-informed research projects, preserves the distinction between intensive and extensive. On the other hand, it recognises other research designs. Between intensively focussed case studies that examine a single research site, and the use of description of populations sometimes using surveys, which are extensive in scope, there are other designs. What are called here 'comparative case study research' and 'generative institutional analysis' are two types of design standing between the intensive and extensive extremes. What distinguishes them is not the qualities of the data these methods prioritise – in particular whether it is measurable or at what level - argued by methodologists to be a basic issue.[15]

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12 In recent years there has been considerable growth in the systematic study of qualitative research methods, which have been developed by scholars defining the subject as inherently evaluative, and who see social reality purely and simply as something constructed by participants. This doctrine is identified as "constructionism". Research methods are sometimes seen as polarised into either positivistic (and quantitative) or relativist or 'constructionist' (and qualitative). See A. BRYMAN: *Quantity and Quality in Social Research*, London (Routledge) 1988 (= *Q and Q*). This distinction is, however, one that realists reject, recognising only different levels of measurement and the need to seek research data appropriate to the subject under investigation.

13 R. HARRE and P.F. SECORD: *The Explanation of Social Behaviour*, Oxford (Basil Blackwell) 1972.

14 A. SAYER: *Method in Social Science: A Realist Approach*, London (Routledge) 1992, p. 243, and *Explaining Society*, p. 165.

15 In *Q and Q* for example.

On the contrary, it is the way in which the designs feature different aspects of explanation as conceived by realists. Either the target of the research is about discovering a mechanism, or finding out more about it; or it is finding out more about the contexts in which mechanisms are operative. These targets are likely to be hit using qualitative and quantitative data, though the importance of the different kinds of data, and the mix of kinds of data sources, necessarily shifts as research becomes more extensive in scope.

As generative mechanisms are below the surface of presenting events, research is needed to uncover them. Intensive research is popular because it allows complex interactions to be studied. Such research necessarily gathers information from a range of sources and of different types over relatively long periods of time, but the type of data sought does not remain unchanged. Typically researchers progressively focus on observations that give insights into, and then progressively uncover, underlying processes. Case studies are centrally concerned with the empirical validation of the mechanisms or processes contained in them, and the progressive clarification of their nature. In such studies part of the research problem involves establishing the boundary between mechanism and context. In such studies context is arbitrarily fixed at the outset and the boundary between mechanism and context progressively clarified. Because of their capacity to reveal the operation of mechanisms, research using case studies may be thought of as the primary kind of research design in the realist cannon.[16] Case studies thus provide stimulation to the theoretical imagination concerning possible causal connections. Given an idea that there are mechanisms in operation, and that existing theory and research provides guidance as to what they might be, data collected can be focussed to establish the actual shape and character of the connections. This will involve bringing to light particular features of the case, but will allow a theoretical understanding of general mechanisms to develop. When theoretical insight is achieved, a perception that there are general mechanisms, of which the case is but an illustration, may also emerge.

If the focussed case study is used to establish the existence of causal processes, what are the uses of the other designs in Table 2? Firstly, research can seek to establish, through judiciously chosen comparative studies, how context and mechanism have typically intersected, to produce recurrent outcomes. Here research involves establishing the essential mechanism, and the context, with the implication that the mechanism will explain what typically happens. Here, although it is recognised that context can influence the working of a mechanism, in the majority of instances the outcome will

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[16] This is frequently contended. See, for example, M. MILES and A.M. HUBERMAN: *Qualitative Data Analysis*, Beverley Hills (Sage) 1994.

tend to be of a particular kind. The notion of intersection is meant to imply that the mechanism and context work together without undue influence on each other. Alternatively, it is possible to consider the interaction of context and mechanism over a range of places and time, and to examine the ways in which context and mechanisms have interacted to produce unique and historical outcomes. Here the interest is in establishing how a mechanism and its context have actually interacted. Finally, realist researchers are interested in large, quantitative data sets if they may be used to describe a context in a theoretically germane way. If such data, perhaps augmented by other research findings, could be used as the basis for conjectures about how widespread key social processes might be in a population, they could be theoretically interesting. Realist researchers can be interested in the results of large-scale surveys and the use of data relating to organizational populations, demographic and other data, to the extent that they describe the context of change.

Table 2. Eight Research Designs Relevant to Realist-informed Research

Harre's, Sayer's and Dannermark's Classification:	Intensive			Extensive
Distinctive Research Strategy	What is the mechanism? (context as given)	How do Context and Mechanism (a) typically intersect?	(b) historically interact?	What is the context? (mechanism inferred)
Research Procedures:				
Passive Study	Case Studies (1)	Comparative Case Analysis (2)	Generative Institutional Analysis (3)	Population studies -surveys etc. (4)
Active Intervention	Action Research (5)	Comparative Policy Evaluation (6)	General Policy Evaluation (7)	Policy Critique (8)
Dominant Logic of Discovery	abduction	abduction	retroduction	retroduction

Table 2 features a distinction between research where the researcher is passive or detached in relation to the subject matter, and that where active intervention is undertaken in the research process. Research methods texts sometimes suggest that there is a fundamental distinction between inter-

ventionist and non-interventionist research.[17] Table 2 suggesting that the realist organizational researcher may be detached or engaged; that is, interested in explaining things and events as they are, or interested in trying to induce change through particular kinds of intervention.

It might be thought that realism, which holds that the underlying, real causes of things can be revealed, should share the assumptions and convictions of many natural scientists, that research must remain detached to achieve objectivity. Positivists want to leave their subject matter precisely where it is, and see experimenter and other interactive effects, in which the acts of research change the objects of research, as potential sources of error which should, if possible, be eliminated. But outcomes are often dependent on the meanings attributed to agents in particular situations; and this tendency can be influenced by the research act itself. Although observing a distinction between active and passive research, realist researchers do not necessarily favour the one and deny the importance of the other. There are often sharp disagreements between them about whether engaged research is either possible or desirable.[18] This controversy is beyond the scope of the current paper.

A more contentious area concerns the logic of discovery. As indicated by Tables 1 and 2, realist-informed research employs two logics of discovery, abduction and retroduction. These are difficult to differentiate in practice. The contention here is that the discovery of mechanisms is the start of the quest for developed and grounded knowledge. Firstly, there is the search for mechanisms, but it is short step to considering the conditions of the possibility of mechanisms, and raising the question of what must be the case for these mechanisms to exist. The first task of identifying mechanisms is pattern-recognition. Realist research explains because it establishes that events can be construed as indicating causal mechanisms; that is, sequences of events which constitute recurrent patterns. The most basic kind of explanation involved in realist research, therefore, is demonstrating the existence of causal sequences or generative mechanisms. As such it abducts or takes away from the totality the essential observations from the peripheral and inessential. Once a generative mechanism is known, and it is grasped theoretically, then extending knowledge by studying the effects of the

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17 A classic formulation here is the distinction drawn between 'involvement ' and 'detachment' by Elias, see N. ELIAS: "Problems of involvement and detachment", in: *The British Journal of Sociology*, 7(3) (1956), pp. 226-252; N. ELIAS: *Involvement and Detachment*, Oxford (Basil Blackwell) 1987.

18 R. PAWSON and N. TILLEY: *Realistic Evaluation*, London (Sage) 1997. A.VAN DER VEN: *Engaged Scholarship*, Oxford (OUP) 2007.

particular context on the working out of a mechanism is a possibility. Of course, the context may remain imperfectly envisaged. However, and here a second objective of research comes into play, knowledge of a particular mechanism sets in train speculation about the character of the context and which of its features make the detailed processes described as the mechanism possible. In its most general form what is being considered are the conditions for the existence of the mechanism. This is recognisably the use of retroductive logic, so-called because it looks back from the established existence of a phenomenon to enquire about the necessary conditions of its existence. It asks the question: what must the world be like for this to have come into existence?[19]

Table 3. The Goals of Research and Logics of Scientific Discovery

		Principal Logic of Discovery	
		Abduction	**Retroduction**
Focus of Research	Generative Process / Mechanism	Specifying a generative process	Discovering temporal and spatial links in complex generative processes
		Simple Case Study Design Examples: Willis / Burawoy I	Generative Institutional Investigations Examples: Edwards II / Mutch
	Effects of the Context	Clarifying the Contribution of the context to effects of a generative process	Considering the General Context and its relevance to general causal mechanisms
		Comparative Case Study Design Examples: Burawoy II, Edwards I	Large scale population studies Examples: Byrne, Ackroyd + Muzio

The present chapter will now be concluded with the suggestion that four idealised types of realist-informed research strategy can be distinguished - Table 3. These approaches are defined by reference to the combination of the attention paid to (a) the substantive focus and whether attention is

[19] *Explaining Society*, pp. 80–81. These authors propose another somewhat different account of the formal properties of these logics of discovery.

primarily paid to generative mechanisms or their context and (b) the logic of discovery employed in the research and whether it is primarily abductive or retroductive in terms of the underlying logic.

Despite their idealised character as depicted in Table 3, actual examples of research projects are considered as illustrations which approximate them. Just as in positivist research induction and deduction are used, so it is claimed here that realist research is comparably complicated, moving between abduction and retroduction. However, as in positivism, research is cumulative, with different kinds of designs potentially contributing to a growing body of knowledge.

V. Research Designs and Logics of Discovery

1. Single Case Study Research

Case studies are the most frequently adopted research design used by realists in organization studies. Studies which may entail observation of a limited number of people (often no more than ten or a dozen) within an organization, are common. The reason for this is not difficult to discern. Organizations have features that make them suitable for investigation. An organization is identifiable as a set of formal roles and relationships and, because of this, usually has a distinct membership of people who inter-relate in relatively predictable ways. An organization has a clear boundary differentiating it from what is not the organization. Thus, organizations constitute a context in which sustained research can produce insights into latent causal processes. At the outset, the generative mechanisms that might exist, other than the processes through which work is done, value added or services provided, are substantially unknown. It is only following observation of the behaviour of organizational members, and through the consideration of other available information, that recognition of key generative mechanisms can begin. Clues about generative mechanisms are given in the behaviour and attitudes of organizational members and are also indicated by other information, such as management records and reports. But the causal processes of interest themselves have to be imaginatively inferred and constructed by the researcher from observations and information collected.

Willis' case study of an English secondary school (Hammertown Boys' School) is a well known study.[20] A school is assumed to provide lessons and

[20] P. WILLIS: *Learning to Labour*, Aldershot (Ashgate) 1977.

instruction that are willingly (if not enthusiastically) accepted by the pupils. However, some of the students observed by Willis more or less covertly rejected the education offered by the School, despite the possibility that it might allow some of them to escape the waged-labour that they would otherwise experience in later life. Central to this account is the recognition of the powers and tendencies of the groups. Rather than accept the teaching offered to them, so that teaching is effective and learning is positively enjoyed, some pupils subverted the intentions of the teachers by disengaging from the school, whilst often sporadically continuing to attend. The boys Willis studied tended to see their future in terms of the industrial work they would likely do in their future lives, and this led them to define education as irrelevant. Whilst they cleaved their alternative values and aspirations based on the status they could attain from their prowess as working-class males, the teachers often struggled to interest the boys, and sometimes gave up on the task of involving them in the educational process. Despite recurrent attempts, the educational process espoused by the School was seen to fail in some of its basic tasks. Clearly, in this example, the close and sustained observation of participants is a basic element in the strategy of research. But the sustained observation of groups, including the collection of evidence of various kinds about their attitudes is not the only matter considered. As Layder[21] has said: "...a central feature of realism is its attempt to preserve a scientific attitude towards social analysis, at the same time as recognising the importance of actors' meanings and incorporating them into research."

Hence, the case study researcher seeks to build an account of key aspects of the attitudes and values of groups that are closely studied and appreciate the constraining influence of aspects of the wider organization and society. This is also evident in the work of Burawoy[22] (1979), who studied the behaviour of workers in a machine shop in Illinois in the USA in the 1970s. Against the expectation that such work would produce work limitation, Burawoy revealed that sometimes piecework incentives motivated high levels of performance. When employees decided it was possible to earn a good return from their efforts, piecework incentives would induce individuals to perform at a high level. However, there was another element which Burawoy finds important. Employee attempts to earn at a high level led them into competition with each other and the engagement of the operatives

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21 D. LAYDER: *New Strategies in Social Research*, Cambridge (Polity Press) 1993, p. 50.

22 M. BURAWOY: *Manufacturing Consent: Changes in the Labour Process Under Monopoly Capitalism*, Chicago (University of Chicago Press) 1979 (= *Manu Consent*).

in the workplace thereby acquired game-like properties. Also, Burawoy shows that horizontal antagonism between worker and worker as they competed to be highest earners in their part of the factory, displaced and subtly transformed the vertical antagonism of worker and manager. Thus the incentives designed to induce high effort did not work precisely as expected, in that competition, and high levels of output, would only occur in certain circumstances, leading to unpredicted variations in output. However, the competition changed the conflict patterns to be observed in the shop. Burawoy's study, like Willis', was based on the observation of the behaviour of a small number of operatives, but there is no doubting its general importance.

Although the machinists studied by Burawoy behaved in idiosyncratic ways, this does not alter the conclusion that similar processes of interaction between managers, rate setters and workers produce similar patterns of work limitation and conformity in many factory locations. It is possible to see that cases can be highly revelatory if they lead to the perception of processes that are widespread and economically and/or socially significant. If research reveals how underlying social mechanisms work then the resulting account will have the probability of being generally important. Indeed the identification of generative mechanisms may reframe particular observations as constituting a newly discovered and distinctive pattern. This is the essence of the abductive explanatory strategy.[23] Here is the effective answer to the criticism of case study research designs, that they are inherently weak because they investigate only one situation which could well be untypical. In abduction a new pattern is revealed that puts observed evidence (only some of which will be known and familiar) in a new configuration, and so identifies something new and possibly generally important.

2. Research Involving Comparative Case Studies

It is a short step from the idea that a generative mechanism explains organizational outcomes, to the use of comparative cases to study variations in mechanisms. Such comparative studies do not allow the use of deduction to decide what is causing particular effects. For this to be possible cases must be exactly the same as each other save in one precise, putatively causal 'variable'. There is clearly a temptation to regard comparative case study designs as being a kind of naturally occurring approximation to a controlled experiment, in which circumstances serve up, purely by chance, cases that are in key respects the same, whilst differing only in respect of a study

[23] Compare the account in *Explaining Society*.

variable. Realists reject this possibility, not because it is improbable, but because they rule out the applicability of experimental research, and approximations to them, as inappropriate to the study of human subjects. To invoke such an idea is not only to invite the application of rigorous research design requirements that case studies cannot be expected to meet, but also entail conceiving of the world as made up of discrete relationships of cause and effect. Realists think this procedure involves unacceptable ontological assumptions.

In comparative research it is accepted that, even where similar organizations and similar workgroups are studied, almost everything is different between the cases. However, the idea is to choose as cases situations in which the same complex generative mechanisms are involved. So it is that the focus of the research work is the mechanisms, and the attempt to find evidence that they exist and are working themselves out in particular ways. This explains why, even where it is possible for researchers to get comparable data from different cases, they may choose not to do so. In some studies the lack of precise comparability is obvious. Here Burawoy's comparative analysis of factory regimes in the USA, Britain and Hungary, is relevant, because it shows him building on his earlier study of a single US machine shop. In the core of his work in The Politics of Production, Burawoy[24] makes sustained comparisons between the behaviour found in his research in his US firm, and that found by Lupton in a British engineering works and the observations of Haraszti in Hungary.[25] Although they are all factory regimes with professional managers directing them, and similar payment systems, the behaviour of the workgroups is dissimilar. The industrial discipline is more strongly exerted, and more obediently complied with, in Hungary by comparison with the USA. Burawoy's principal finding is that despite obvious similarities in the labour process and factory regime in these different places, the political and economic context are relevant to explaining the different experience of the workers. Discipline in Hungary is stronger, despite the ownership of the factory by the state and the lack of unemployment in the country. Burawoy argues that institutional differences, particularly political and economic circumstances, are actually the most important differences.

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24 M. BURAWOY: *The Politics of Production: Factory Regimes Under Capitalism and Socialism*, London (Verso) 1985; see also M BURAWOY: 'Multi-case ethnography', paper presented at Sociology Symposium, Newcastle University, September, 2007.

25 T. LUPTON: *On The Shop Floor*, Oxford (Pergamon) 1963. M. HARASZTI: *A Worker in a Workers' State: Piece Rates in Hungary*, Harmondsworth (Penguin) 1977 (trans. by M. Wright).

These led managers to be highly constrained by local party bosses and the output of the factory to be strictly disciplined by output quotas. He therefore redefines the distinction between the mechanism and context in these cases.

Another indicative comparative study by realist-influenced researchers is Edwards and Scullion's study of factories in the English midlands.[26] This is more extensive than Burawoy's and it cites more comparable data from the factories included in the study. However, like Burawoy, these researchers are not aiming to quantify variables and look for correlations. Only quantitative measurements of workforce size and composition are cited, whilst the collection of directly comparable data on attitudes was avoided. Here again, all that is held to be similar are theoretically conjectured features of the industrial labour process, which describes the interaction of workers and managers in factory settings. The generic labour process is of interest because it may be seen to be working itself out in circumstances that are otherwise different. Thus, deductive elements of explanations arising from comparative case explanations are limited. In essence, the logic of this design is little different from that found in the single case, and the aim is to explore variations and to form ideas about the really essential features of the generative process under scrutiny as opposed to the influence of the context. Here too there is a recasting of the understanding of the nature of the phenomenon under study, and a consideration of the question of how far the central generative mechanisms under examination are truly in common. As with the single case study, the logic of the research design is essentially abductive.[27]

The point is that if features of the operative mechanisms have been partly identified, more general knowledge may be sought by looking at a larger number of instances. Comparative case research begins from the assumptions that there will be observed variations in generative mechanisms. First it may be that a mechanism has not been fully or adequately specified. It is also the case that a mechanism is never completely isolated from its context, and so it is sometimes not clear the extent to which outcomes are attributable to a mechanism under study or to the context in which it operates. It is also true that a mechanism is a theoretical construction and there will be variations between the theory and the way a mechanism is in particular situations. Comparative research design offers the possibility of considering the possible effects of all of these sources of ambiguity.

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[26] P. EDWARDS and H. SCULLION: *The Social Organization of Industrial Conflict: Control and Resistance in the Workplace*, Oxford (Blackwell) 1982 (= *Social Organiz.*).

[27] *Explaining Society*, p. 79.

3. Generative Institutional Investigations

Some of the work of Edwards, and also of Clark and Mutch[28] is illustrative of this type of work. The person who has perhaps done most to try to clarify the temporal links between generative processes is Peter Clark. However, his work combines discussion of temporal and geographical similarities and differences. Comparative case studies undertaken by realists often combine with studies of the development of socio-economic systems and comparisons of their characteristics. This is the case with studies by Burawoy. Both studies by Burawoy referred to so far include material on the development of features of the US economy (in his early work) and on the features of the relevant politico-economic system (in later, comparative work). This is also true of Edwards, who wrote a follow-up study to The Social Organization of Industrial Conflict in the shape of a study of economic conflict.[29] This work is broader in its frame of reference than Edwards' research with Scullion. It not only develops the theoretical ideas about conflict, but covers a range of other analytical work including a sustained comparison of the institutional characteristics of industrial relations in Britain, USA and Australia, as well as outline comparisons of non-capitalist socio-economic systems. In the course of his discussion of state socialism there is a critique of Burawoy's analysis of the characteristics of the labour process under state socialism.

Some of the handling of the subject matter considered by Burawoy and Edwards in their later work may be construed simply as invoking broader aspects of context. However, this research involves a significant departure, with a different underlying logic from the research designs already reviewed. Work of this new kind in the later work of Edwards, for example, explores connections that have produced significant changes over time. In chapter three of his 1986 book, for example, Edwards explores temporal sequences in the development of capitalism. He considers the connection of change in the economy with forms of protest – which he shows have also changed. We may interpret this as a shift of perspective from looking for similarities and differences in the interaction of context and mechanism at roughly the

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[28] P. CLARK: *Organizations in Action: Competition Between Contexts*, London (Routledge) 2000; A. MUTCH: "Reflexivity and the institutional entrepreneur: a historical exploration", in: *Organization Studies*, 28(7) (2007), pp. 1123-40; S. ACKROYD and D. MUZIO: "The reconstructed professional firm: explaining change in English legal practices", in: *Organization Studies*, 28(5) (2007), pp. 729-47.

[29] P. EDWARDS: *Conflict at Work: A Materialist Analysis of Workplace Relations*, Oxford (Blackwell) 1986.

same time (i.e. synchronically), to searching for causal sequences working themselves out over relatively long periods of time (i.e. diachronically). What is sought are causal connections that suggest the typical or dominant ways in which generative mechanisms and contexts have recurrently interacted to produce historically unique outcomes. Such research has to be largely historical, being forced to rely on the interpretation of data left in the documentary record, or that may be reconstructed in some way, directly or through the interpretation of other studies. Realist research into temporal sequences, however, is guided by ideas about generative mechanisms occurring in a context. In the work now under consideration change is often seen as arising in specific combinations from the working of generative mechanisms and their contexts as they work themselves out over time.

It would be incorrect to say that research designs of this type mainly involve reconceptualising their subjects. To the extent that this type of research involves identifying and characterising generative mechanisms, re-conceptualization is part of the contribution of the research, of course. As with the research designs considered earlier, the logic of discovery involved here is therefore also abductive but not entirely so. Something else is being undertaken. This is the examination of some of the conditions that led to the emergence of a given generative mechanism in the first place, or away from it to something else. Clearly, research of this type may take the generative processes as largely given and it also enquires into the conjuncture of circumstances in the context that allowed one set of outcomes to emerge and not others. Thus, abduction is not all that is involved. Research of this type enquires as to what set of factors gave rise to the particular, historically observed, outcomes. This type of design is therefore involved in enquiring into the conditions of the existence of current outcomes. Research of this kind qualifies as retroductive as defined by Dannermark et al.[30] To some extent, all the designs that have been considered here give rise to reflection on the conditions of existence of what is found in research, but this is the first example of a design in which such reflection is a necessary feature of the approach to research itself.

4. From General Contexts to Mechanisms

The problem of acquiring general knowledge may be approached from the other direction: rather than trying to build up from particular cases to general features of the landscape, the landscape itself may be generally surveyed, to

[30] *Explaining Society*, p. 80.

identify general features. If reliable, extensive studies may establish the contextual features in which mechanisms could be found to be at work. This takes realist-informed researchers firmly into the territory of quantitative study. If features of an operative mechanism have been postulated and even identified, general knowledge of them may be sought by looking at extensive data that might indicate the extent of their distribution. Theoretically meaningful data collected in respect of a whole population (or even a large sample) might be highly revelatory considered in relation to ideas about specific mechanisms. However, this observation exposes the difficulty with this strategy, as quantitative data is often collected without any recognition of the role of prior conceptualisation and indeed on the assumption that there is negligible distortion involved in defining perceptions as countable things. For this reason, quantitative research looking at population characteristics (category (4) in Table 2) has had less advocacy amongst realists than studies which principally incorporate and utilise qualitative information.

Clearly realist-informed researchers are interested in the possibility of depicting the general context within which generative mechanisms may be operative, and many have an interest in establishing the general features of the populations in which generative mechanisms might be supposed to be at work. There is at least one realist-informed methods text positively advocating the use of surveys and the consideration of official statistics in research.[31] A substantial part of the problem here is that quantitative social science has often relied on data of doubtful value, as well as using it in ways that approximate experimental research techniques that are unacceptable to realists. The problems realists have with established quantitative research methods has taken time to uncover, and some would argue that the problems have, even now, not yet been fully exposed. There are, for example, deep concerns about data collection and recording practices, which impose the investigator's categories and ways of thinking on research subjects. Then there are concerns about the unsocial and unreflective basis of research practice, which ignore the effects of the social context of the research encounter and the bearing this has on the construction of generalisations.[32]

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31 D. BYRNE: *Interpreting Quantitative Data*, London (Sage Publications) 2002.

32 R. PAWSON: "Theorizing the Interview", in: *British Journal of Sociology*, 47(2) (1996), pp. 296-314; N. BATESON: *Data Construction in Social Surveys*, London (Allen and Unwin) 1984; C. MARSH: *The Survey Method*, London (Allen and Unwin) 1982; C. MARSH: *Exploring Data: An Introduction to Data Analysis for Social Scientists*, Cambridge (Polity Press) 1988.

There are also substantial issues concerning data handling and analysis.[33] The problems can be generally stated as arising from the complex, open systems that are the subjects of study in social science. These, realists argue, are not appropriately conceptualised by the individualistic assumptions that underpin the implicit positivism of most approaches to quantitative research. Resolving complex social situations – in which individuals and groups have highly complex attitudes and sentiments - as limited numbers of 'variables' is deeply unsatisfactory to realists as the practice contradicts their ontological ideas.

Byrne has pursued furthest consideration of the problems associated with traditional survey methods and their implicit conceptualisation and handling of quantitative data in social research.[34] To counter these problems, Byrne proposes new ways of analysing quantitative data relating to populations. He argues that population data can only be effectively analysed by the abandonment of variable analysis and the substitution of what he calls 'multi-level modelling'. To be fully effective, this procedure requires innovations in the ways survey data are recorded, moving to the collection of information about the groups in which respondents are located in addition to their individual characteristics. Byrne is correct that the standard practices in survey work are profoundly individualistic but if the problems are effectively tackled, highly creative procedures for quantitative modelling of populations can be developed. However, there is some way to go before these methods are readily applicable in organization and management studies. Not all data relating to population characteristics are derived from social surveys, however, and either do not rely on the testimony of respondents to particular questions, or do so only partially.

It is after all possible to collect data relating to relatively factual attributes of target populations as well as or instead of reliance on the findings of social surveys. Thus it is possible to count the number of organizations, the numbers of personnel in them and some of the institutionalised features of their internal organization, such as their numbers of employees of different types. In short, realist-informed researchers have an interest in selected descriptive statistics because these may be construed as describing features of the contexts in which they have an interest relatively objectively. Population characteristics established by descriptive statistics can be valuable information in all sorts of ways – establishing the extent of trends and processes is an

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33 C. MARSH: *The Survey Method*, London (Allen and Unwin) 1982. C. MARSH: *Exploring Data: An Introduction to Data Analysis for Social Scientists*, Cambridge (Polity Press) 1988.

34 D. BYRNE: *Interpreting Quantitative Data*, London (Sage) 2002.

obvious one. Indeed the best case studies and more general types of research reviewed in this paper have also involved recognition of the value of general descriptive statistics. Thus, Edwards and Scullion record the numbers of employees and other descriptive information about the plants they are studying and the companies that own them. Burawoy produces figures relating to the financial performance of the Company owning Allied machine shop.[35] Appropriately contextualised and interpreted, information derived from responses to questionnaires may also be valuable.

Thus, quantitative data collected in respect of a population can be revelatory, as they establish the features of the context in which researchers have an interest. If key features of a mechanism or mechanisms have already been postulated or partly identified, general knowledge of them may be sought by looking at extensive data. Such information will allow reflection on the context in which a mechanism operates and also facilitate consideration of the properties of a mechanism or how a mechanism operates. Thus the design of realist quantitative research as a way of re-framing and reconsidering organizational processes is relevant. There are several large scale research projects that have included, as a matter of the design, the collection of information on population parameters. An example from the 1990s is research undertaken into the employment practices of transnational companies in the UK[36] in which the numbers of such companies was estimated and used. A more modest example of research using population data combined with an understanding of generative mechanisms is the work completed by Ackroyd and Muzio into change in the organization of the English legal profession in the last twenty years.[37]

Legal firms have been much studied both in the UK and North America, but mainly by the use of small scale case studies with ethnography. The leading models of professional firms, the so-called managed professional business (MPB) have been derived from comparative work looking at small samples of law firms in Canada. Subsequently the model has been widely

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35 *Social Organiz*, pp. 24-5, record the numbers of employees and other descriptive information about the plants they are studying and the companies that own them. *Manu Consent*, p. 36.

36 P. EDWARDS, P. MARGINSON, P. ARMSTRONG, J. PURCELL: "Extending beyond borders: multinational companies and the international management of labour", in: *International Journal of Human Resource Management*, 6 (1995), pp. 702-19.

37 S. ACKROYD and D. MUZIO: "The reconstructed professional firm: explaining change in English legal practices", in: *Organization Studies*, 28(5) (2007), pp. 729-47. D. MUZIO, S. ACKROYD and J-F. CHANLAT: *Redirections in the Study of Expert Labour*, Basingstoke (Palgrave) 2008.

applied to a range of other professions and their associated organizations.[38] However, existing studies of the work processes in legal firms undertaken suggested a decline in the working conditions of employed solicitors accompanied by increasing competition for preferment and promotion. Earlier research had also established that many solicitor firms had been growing in size and importance in the UK and the USA, and very large firms were emerging in this process. Such features as these led to the proposal of a key feature of the MPB model, indeed the one that came to feature in the name for it, was their managed character. It was supposed that existing research had established that law firms were moving away from the old model of professional partnerships to the managed professional business.

However, consideration of the legal profession in English law firms suggested that some trends assumed to be general by the proposers of the MPB concept were not in evidence; and the findings concerning the population of lawyers also stimulated more critical interrogation of the generative processes implied by the MPB. On the basis of new evidence it seemed that the generative process producing change in English law firms were different from those suggested by exponents of archetype theory and the MPB model. For example, descriptive statistics relating to the population of firms gave no support to the idea that managers as a group were increasing in English firms. In fact, the available data showed a steady twenty year decline in the numbers of administrators and managers. During the same time there was a substantial increase in the numbers of solicitors employed, which was against the assumption that managers would tend to substitute relatively cheap untrained workers for relatively expensive professionals. Far from the rise of a managerial cadre, it seemed that, in English legal firms anyway, it was senior professionals who were consolidating their position. Evidence on earnings showed that the earnings of senior professionals were increasing rapidly, and the capacity of partners to leverage their earnings is in increasing ratio to the numbers of employed lawyers per partner. This process was boosting the trend towards ever larger law firms and the continuing employment of ever-larger numbers of junior lawyers. The increasing difficulties of juniors in acquiring more senior positions and of becoming partners were obvious trends. These findings suggested that it was a subset of the professional cadre that was actually driving a key

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38 R. GREENWOOD and C.R. HININGS: "Organizational design types, tracks and the dynamics of strategic change", in: *Organization Studies*, 9(3) (1988), pp. 293-316. D. BROCK, M POWELL and C.R HININGS: *Restructuring the Professional Organization*, London (Routledge) 1999.

generative process, rather than the rise of management. This was resulting in the rapid growth in the size and profitability of legal firms. In short, as a result of consideration of population characteristics in this research, the established understanding of the generative mechanism lying behind the changes in the organization of legal firms was improved.

Turning to the logic of discovery involved here, it is true that the understanding of generative processes is central to realist research. But it would be incorrect to suggest that what is being undertaken simply involves reconceptualising the subject of the research. Something else is being undertaken. This is the examination of the conditions for the existence of the central generative mechanisms studied. Abduction is not all that is involved in this kind of research. It also qualifies as involving retroductive logic, in that the conditions necessary for these particular generative processes to come into existence are also considered. Features that are relevant for consideration here are the fact that, in recent years, the UK government had substantially deregulated legal practices, allowed competition from other occupations and between legal practices themselves.

VI. Final Remarks

Ways of presenting approaches to social science are varied. The above account is distinguished by the explicit connections made between an approach of philosophical realism, and the body of research and writing that has been produced by a relatively small research community in organization and management studies, centred on the UK. Presenting schools of thought as differing fundamentally because of their approaches to philosophy is not, of course, new. Some valuable works have been written taking this line during the last century.[39] To suggest that there is a close and precise connection between particular philosophical doctrines and an approach to research is, however, not usual.[40]

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[39] For example, D. MARTINDALE: *The Nature and Types of Sociological Theory*, London (Routledge) 1961.

[40] Books organised around the links between philosophical doctrines and approaches to research methods are now common in organization and management studies, and at least one text connecting organization theory with different philosophies, giving a good account of critical realism has appeared. J. MCAULEY, J. DUBBERLEY and P. JOHNSON: *Organization Theory*, London (FT / Prentice Hall) 2007.

By contrast with what has been undertaken here, it has been more typical in recent times to draw lines of similarity and difference between bodies of work in terms of differences of meta-theory and ideology. The seminal works of an earlier generation stipulated a number of different dimensions along which approaches to social science may differ,[41] and so allow more scope for the political and social differences that are involved in the emergence of new approaches to the social sciences, than has been possible here. Such differences have not been considered in the present account. However, such social and political influences are clearly there, and an account of social science ought perhaps to make a gesture towards understanding some of the social causes of what is, at the end of the day, a social as well as an intellectual movement. This is not too difficult to conceive. Perhaps the obvious point to make concerns the rise in the influence of cultural relativism and relativist ideas in social science in Britain and other places, to which realist social science can be seen as a reaction, and a demand for a return to the status quo ante. For much of the 20th century, social science in Britain was assumed to be a problematic and weak branch of natural science: but this came under severe criticism in Britain and in the USA after 1970. The change followed intellectual movements originating in continental Europe. In Britain, unlike in other parts of Europe, progressive reformism tended to be associated with scientific advances. After Darwin, and the beginnings of the rise of the new organic sciences influenced by his work, there had been a confrontation between the representatives of the new science and the traditional social and religious elite. This was decisively won by the scientists; and from that time science was thought of as being socially enlightened and progressive. However, in the 1970s, ideas whose origins can be traced to continental roots in existentialism and phenomenology, had an increasing impact on British social studies scholarship. From this time we can chart the rise to influence of phenomenology, modernised hermeneutics and ethno-methodology. Such sets of ideas are profoundly humanistic and strongly opposed to the influence of technological thinking which has its apotheosis in positivism. For the leaders in this movement, social studies were branches of the humanities and not science. Additional influences pushing in the same direction were to be found in the expansion of higher education and the need to develop a non-technical approach to the social science curriculum appropriate for mass provision. Whatever the exact sources influencing the rise of phenomenological and ethnomethodological approaches to organization

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41 W.G. BURRELL and G. MORGAN: *Sociological Paradigms and Organizational Analysis*, London (Hienemann) 1979. S. CLEGG and D. DUNKERLEY: *Organization, Class and Control*, London (Routledge) 1980.

and management, they were closely followed by the appearance of extreme relativistic and subjectivist ways of thinking in these fields in the form of post-structuralism and postmodernism.

Given the cultural context it is helpful to see the development of a social science explicitly linked to realism as a reaction to the movements sketched above. For many academics in Britain, humanism, and still more, relativism, placed in jeopardy the limited social reforms achieved in post-war Britain, including the welfare state. These reforms were widely assumed to be based on acceptance by political elites (of all parties) of social science findings grounded in empirical if not scientific realism. The new realism discussed in this paper also gives a more important place to theory, and, by extension, more influence to the intellectuals who devise, develop and defend theoretical resources. The new realism could therefore be seen by its promoters as intellectually and morally progressive. That there had to be improvement in the philosophical underpinnings of the predominant approach to social studies is obvious in retrospect. The dominant philosophy of science at the time, Popperian positivism[42] took physics as its model and made any but the most desiccated econometrics unscientific. It is no surprise to realise that the implicit model of science lying behind and informing much of the new realism discussed here is biology or medicine as opposed to physics.[43] More importantly, when mounting its challenge to the dominance of traditional social science, the intellectual leaders of the new humanism emphasised the philosophical roots of their ideas.[44] To meet such a challenge, it is insufficient and unpersuasive to point to the established achievements of traditional modes of work. A philosophically-based challenge has to be met by a philosophical counter argument. A return to refurbished philosophical realism is understandable in the circumstances.

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42 K.R. POPPER: *The Logic of Scientific Discovery*, London (Wm Hutchinson) 1977. R.B. BRAITHWAITE: *Scientific Explanation: A Study of the Function of Theory, Probability and Law in Science*, Cambridge (Cambridge University Press) 1967.

43 P. MEDAWAR: *The Art of the Soluble*, London (Macmillan) 1970.

44 Z. BAUMAN: *Hermeneutics and Social Science*, London (Wm Hutchinson) 1978.

Chapter 4

Epistemological Issues and Aspects of Organizational Practice

FRITS SCHIPPER

P. Koslowski (ed.), *Elements of a Philosophy of Management and Organization*, Studies in Economic Ethics and Philosophy, DOI 10.1007/978-3-642-11140-2_4,

I. Introduction

Philosophy deals with ontological, epistemological and ethical problems, and the philosophy of a particular discipline or practice does this in connection with just this discipline or practice. The three themes mentioned are not unconnected. In the case of medicine, for example, when a physicalist ontology is leading, the concept of 'suffering' would become irrelevant, while human beings would be nothing but complex physio-chemical systems. If so, then this has unavoidable implications for what could be considered as responsible action, which points to ethics. Something analogous would apply to management and organization too. If a company, for instance, is regarded as no more then a money-making machine, then this gives expression to a particular ontology. As such, this view limits where to look at when a business' performance is viewed in terms of relevant ethical criteria.

Now, this paper explores some epistemological issues which might be involved by organizational practice, otherwise things discussed would become "une mer à boire", at least comparably for one paper. I start by saying a few things on epistemology in general, what it can be about, followed by a brief exploration of the epistemological views on which this contribution is based. Next, some aspects of organizational practice, sensitive to epistemological reflection, are being addressed generally. In order to make a selection, I will especially concentrate on items involved by responsible governance, i.e. epistemological issues related to transparency and integrity.

II. Epistemology

Generally speaking, epistemology concerns finding an explication of what it means to know something, i.e. understanding what knowledge is, how we come to know, and getting a normative insight in the validation of knowledge claims. As such, it is about potentially different types of knowing, their characteristics, meaning, strengths/limitations, relationships and criteria by which claims are to be judged. Among others, it is also about the relationship of knowledge, reality and society, values involved in getting something to know, the role of the knowing subject, inter-subjectivity, language, skills and the human body, the cognitive meaning of emotion, modes of rationality, the meaning of creativity. Now, a reader could react by saying that all these issues can be studied by particular sciences too. That is indeed correct.

They do consider these matters, but from a factual point of view, looking for how actual processes are going, finding their regularities and explanations of these. The sociology and psychology of knowledge can be mentioned here. Yet it can be questioned whether all understanding of knowledge can be confined to what is just indicated.

We touch here upon the issue of naturalism. It can, for example, be asked whether scientific theories can ever be complete in the sense of coping with everything asking for understanding concerning knowledge. Take, for instance, the psychology of visual perception. Psychologists are involved in experiments studying other people's perceptual processes. They do this from an 'outside' position, while at the same time living their own perception, skills, use of criteria and epistemic validations involved, etc. Maybe the results of research have some relevance for understanding the epistemic value of this lived-through perception. Saying that this is the case, however, is an insight going beyond this very research, pointing to epistemology in which reflection on types of knowing, their distinctions and relationships, involved values and criteria, is referring to questions of validity and is, therefore, evaluative. Actually doing psychology, involving lived perception, in one way or another always presupposes, perhaps implicitly, some kind of epistemological position, for instance, about validity[1].

1. Relational Epistemology

During history different ways of doing epistemology have been present. Some of them, in one way or another, started from the knowing subject (idealism), others did lay a main emphasize on reality (realism); in discussions of the last 20 years these positions are, with differences though, present under the labels of, respectively, 'coherentism' and 'externalism'. Also positions in between have been developed. This contribution also takes an in between position, arguing in favor of, what I like to call, 'relational epistemology'. This terminology is not new, however. For example, in the context of education the expression is used to refer to knowledge transfer. Regarding therapy, it denotes the idea that all insight results from conversation. However, it remains to be seen in how far these views really are epistemological in the sense indicated above. In this paper I will use the term 'relational epistemology' in order to express the idea that all knowing concerns a

[1] This leads also to the issue of diversity. Some authors have reflected the situation of science in terms of paradigm differences, leading, for instance, to questions how these might be overcome. I will not go into this, however, because it does not offer very much help in meeting the purpose of this article.

particular relation of knower and the known[2]. It is an important task of epistemology to explicate what this is about, also keeping an eye on potential variety. I will now present some aspects of the knowledge relation (a), subsequently, attention will be given to epistemic variety (b), and quality of knowing and justification (c, d).

a) Knowledge Relation

Human knowledge is intertwined with many things. In order to make a start reflecting on it we will have to simplify matters. One possibility is looking what is means that 'S knows X'. Expressed in this way, S - the knowing subject - is knowing X, which can indicate some kind of entity. Now, two distinct relata are involved: X, while not being a complete projection of S' mental powers, and S, as far as it knows X, not an exact copy of X[3]. They are connected by the, mostly a-symmetrical[4], relationship indicated as 'knowing'. What is involved in this relationship is rather complicated and the effort of epistemology is trying to find a reflective understanding.

Intuitively, it can be said that this relationship is one including particular values. That this is the case, can be grasped by contrasting it with other kinds of relationships. Let us, for the sake of the argument, say that S and X are both human beings and that in an actual case X is some person Pn. If so, then 'S knows X' becomes 'S knows Pn'. In order to make it less simple it can said to mean S knows so-and-so about Pn. Now contrast this by the following: A beats Pn. Taken straightaway, S is acting with physical force on Pn, the beating not meaning a kind of punishment, for instance; nothing else is involved. It is a factual relation. Moreover, I am not talking about whether 'A beats Pn' gives expression to our own knowledge of this connection of A and Pn, which would have to be expressed as "We know 'A beats Pn'". Now consider 'S knows so-and-so about Pn'. This is not a factual relationship, for its existence requires that the 'so-and-so' is a correct statement of something characteristic of Pn[5]. Subsequently, the statement being

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[2] The reader should not take this formulation as an indication that the knower is considered as isolated from fellow human beings. For social epistemology see F. SCHMITT (1999).

[3] In this formulation, I am now passing by the distinction between *knowing that* and *knowing how*.

[4] I say 'mostly' a-symmetrical, because it is not yet clear whether it always is a-symmetrical. Issues mentioning are, for example, people knowing each-other, and self-knowledge.

[5] Of course this explication is only partial, because the question remains "how does **S** know that **X** is characteristic of **Pn**?". Moreover, when one of two

correct depends on meeting criteria. It also refers to the concepts in use and to the reality of Pn. It is not uncommon to connect the criteria, in one way or another, to the idea of 'truth', and in philosophy much attention has been given to the latter, defining it, understanding what it means, finding necessary and sufficient criteria, etc. I will confine myself now to saying that the relationship of knowing indeed always requires that normative criteria, involved by 'correctness' or 'truth', are being met. The reality of A beating Pn is simply factual.

'S knowing so-and-so about X' is mostly not a matter of passive reception. In the context of the relational epistemology, actual knowing is an activity depending, inter alia, on giving attention, which can be done in various ways, all having a different focus. Often attention is exercised consciously, sometimes not, but in both it influences the content of knowledge. Asking questions, the use of diverse strategies of explanation, the way data are dealt with and exploring the possible dimensions of knowing, the role of information, being rational in various ways, mostly all are involved in giving attention consciously, but it cannot be said that this is always the case. All matters just mentioned give expression to what I elsewhere have called "epistemic variety" [6], which includes also diversity concerning quality of knowledge.

2. Epistemic Variety

This variety does not come out of the blue, but relates to doing justice to the richness of reality. I will now, briefly, explore this variety, mentioning, inter alia, different kinds of questions, explanatory strategies, dimensions of knowledge, and information.

a) Questions

As far as questions are concerned, we can, for instance, pose i) questions of fact, ii) questions of meaning, iii) questions of orientation, iv) questions of identity[7]. We ask them concerning a wide diversity of entities, for example, an office building of a commercial bank, ourselves, the country we live in, etc. These questions direct our attention towards different issues concerning

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people in heavy conversation is saying at a particular moment "I know you!", then this involves more then just explicated.

6 See SCHIPPER (2005).

7 The types of questions mentioned do not exhaust the full potential. Other kinds of questions are for example normative and reflective ones. Epistemology itself heavily depends on a particular kind of reflective questioning.

the entity involved. A simple question of fact about the office is: "What is the length of its main hall?". Another example is: "How can further damage to the foundation be prevented?". Questions of fact in terms of the measurable, the quantifiable are often supposed to be the most lucid ones. A question of meaning, for instance, is: "What does the particular construction of the windows of the main hall say about the value attributed to light expressed in the architect's design?". A question of fact about the bank itself: "What is the market value of its investment portfolio at time t-1?". A question of orientation: "What to do in case of a possible take-over by a foreign bank?". Questions of identity can also address many different subject matters and they can be asked concerning people, organizations, buildings, such as the indicated office, etc. Their relevance is always situational and a particular question of identity relates us in a special way to the entity involved. Answering questions is sometimes rather simple, sometimes very complicated. All matters mentioned very much depend on language. However, body movements can sometimes also be looked upon as a mode of questioning too. While climbing a mountain, a person's seeking a hold for the next step, putting pressure, etc., can be considered as a, rather subconsciously, bodily 'question of fact'.

b) Strategies of Explanation

Some questions concern explanations and different possible explanatory strategies are included in epistemic variety. The strategies can also be connected to the dimensions of knowledge, i.a. the different ways and levels of concreteness-abstraction in which reality can be known (they will be discussed later). Contrary to what some philosophers say, I indeed think that there is room for a variety of these strategies[8].

It makes sense to distinguish the following strategies:

- nomological
- teleological
- hermeneutical
- narrative

Nomological explanations involve deterministic or statistical laws, in different scopes of generality. They are present in many sciences and play, though often put in less precise terms, also an important role in daily affairs, such as using the Law of Gravitation. Also in connection with M&O some theorists try to find nomological explanations, for example, of organizational structure. When available, nomological explanations create, under particular conditions, the possibility of predicting the course of things, sometimes

[8] Literature on knowledge management also speaks of knowledge strategies (HANSEN, NOHRIA, TIERNEY, 1999). My use of the term is different, however.

even of changing it. Seeking nomological explanations implies a preference for asking questions of fact.

Teleological explanations are of two types, functional and intentional. Both use ends, goals or, sometimes, even wider purposes. Saying that particular aspects of an organization's culture allows it to cope with environmental changes refers to giving a functional explanation. A judge explaining the action of a particular person in terms of a deliberate motive is giving an intentional explanation. Some of these, also in the context of M&O, refer to the concept of rationality, for instance means-end rationality. Teleological explanations can be linked to questions of orientation.

Hermeneutical explanations all involve meaning, for example, of a text, a piece of art, a gesture, an aspect of a building, etc. Authors such as Dilthey and Gadamer have presented different views, for example, concerning the act of Verstehen, through which meaning is grasped, yet there is enough common ground to speak of hermeneutics as an explanatory strategy. Hermeneutics favors certain questions of meaning, such as the earlier example of the construction of the windows in connection with the value of light expressed in an architectural design. Another example would be the actual meaning (given by the personnel) of a company's formal structure; this meaning understood, for instance, in terms of basic values of the surrounding society.

Narrative explanations, finally, unite different events, sometimes quite a lot, by means of a plot, showing the course of events having a particular coherence. Narratives, which have a beginning and an end, often involve partial explanations of the other types. An example is the historical narrative[9] of the formal end, after 10 years, of the Hoogovens-Hoesch - a Dutch and a German steel company - merger on the 1st of November 1982. This narrative refers to techniques of production, cultural differences, markets and particular historical circumstances. Besides these 'how it all happened' narratives, there are others which especially contribute to questions of identity. Examples from the organizational context are the ones told about the founders. Often these are used in order to create commitment among the personnel. Moreover, narratives are also used in the context of knowledge management (Foot et al. 2001, p. 126).

c) Dimensions of Knowledge

Another aspect of epistemic variety concerns different dimensions in which the knowledge relation can be actualized. I think it makes sense to distinguish the following dimensions:

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[9] WILLEM NIEUWENHUYS: *Concern in Beweging: vijfenzeventig jaar Hoogovens,* IJmuiden (Hoogovens Groep) 1993.

- abstract↔concrete
- universal↔individual
- structural↔contentfull

The financial chapter of a company's annual report, for example, gives a rather abstract picture. An outsider taking cognizance only of this part, therefore, acquires abstract knowledge of the company. His knowledge can become more concrete, however, if also the social part of the report is read (when available), on the condition that certain quality criteria are met. The universal individual dimension of knowledge can be illustrated as follows. The annual report just mentioned is about an individual company. When looking at reports of many companies in a particular branch of a country's economy (hospitality, for example), the conclusion might, for instance, be that in the FY involved they show a growth in numbers of employees of about 2 percent. This statement is more general. Talking about paint and saying that white lead is a mixture of lead carbonate and hydrated lead oxide is also a statement with a universal claim. However, if an art historian says that the white lead used by Rembrandt was a granular substance, then its scope is limited to one individual. The third dimension is the structure content one. Structural knowledge can be searched for in relation to different kinds of entities, such as organizations, crystals, buildings, physical phenomena, living beings, paintings, traffic systems, etc. This kind of knowledge focuses on the formal make-up of what is at issue, often by using geometrical or other kinds of mathematical representation. Well known examples are the geometrical shape of crystals (planes, lines and knots). Other examples are the structure of an organization (often represented by an 'organigram'), the ground-plan of a church, the wavelength of a particular kind of light, a map only presenting the topology of the highways in Brittan[10]. In the case of works of art, a painting or whatever, knowledge of their composition can be mentioned here (e.g. the golden section). The other side of the dimension is "content". Recognizing the color of a particular object as red or green is having content knowledge. The same is the case if the interest lies on the religious meaning of the ground-plan of a church, or, when looking at an organigram, saying correctly that it represents a 'flat' organization.

Now, the three dimensions can be connected with the explanatory strategies mentioned earlier. Nomological explanations often concentrate on the left and narratives on the right side of the three dimensions. In addition, one might be inclined linking this with an 'abstract-universal-structural' vs.

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[10] The philosopher Moritz Schlick once argued that only structural knowledge has the intersubjectivity required of real knowledge. I doubt whether he is right, but that would take a long argument.

'concrete-individual-content' dichotomy. However, doing so would, from a relational epistemology point of view, fix things far too much, not giving epistemic variety and the richness of reality their due. For example, structural as well as content knowledge can be more or less universal and both can also concern individual objects.

d) Data, Information and Knowledge (dak)

In the organizational literature it is not unusual to distinguish between data, information and knowledge. In this contribution, dak is understood as an item of epistemic variation. From a relational perspective their distinction can be characterized as follows:

- data is symbolic representations. It can function as material for answering questions, often questions of fact, on the condition that the rules of representation are effective, coherent and properly understood.
- information answers a question, such that a questioner's uncertainty disappears. Answers often connect and interpret various data. However, taking away the indicated uncertainty says nothing about whether the questioner is justified in believing to be properly informed (e.g. the case of des-information).
- information can become knowledge in the sense explicated above (section a). If so, then a person's picture of some part or aspect of the world may, for example, be improved, supplemented or enriched. When this is the case, a more adequate praxis may become possible.

What is just said about knowledge is in line with the earlier argument that the relation of knowing involves normative criteria. The term 'improved' is an indication of this. Moreover, knowingly exploring epistemic variety can only be on the condition that the criteria are taken into consideration, which points to the issue of quality of knowledge claims.

3. Quality of Knowledge

The normativity implied by 'knowledge' is one of the key-issues of philosophy and it is, therefore, not accidental that much of 20th century epistemology can be seen as a normative criticism of a (supposed) dominant knowledge-praxis, in which only a limited part of epistemic variety was recognized[11]. However, while quality of knowledge claims is a major philosophical

[11] I will not go into this now, but there is in Western culture a tendency to put the nomological strategy directed to universal and structural knowledge more into the limelight. This tendency has been questioned by diverse thinkers such as Bergson, Whitehead, Merleau-Ponty, Gadamer, Apel, Lyotard, Derrida.

theme, most of the literature on organizational knowledge and knowledge management does pass it by[12]. I now shall pay attention to three issues which I think especially relevant:

- criteria of truth
- depth of knowledge
- sources of knowledge

a) Criteria of Truth

If there is one subject matter which has continuously challenged the philosophical mind surely it is the idea of truth. In the 20th this idea has been the subject matter of semantical, logical, analysis (Carnap), or made it into an ontological theme (Heidegger). Others have posed truth candidates[13] to be functioning only in the context of language games, which themselves cannot be said to be true or false (Wittgenstein). The notion of truth has also been treated with suspicion, saying that claims to it function as exercises of power (Nietzsche, Foucault). It is tempting to discuss these views. Apart from this, however, it is, in the context of my argument, more useful to say just a few words about different possible conditions/criteria of truth. I like to distinguish the following ones:

(formal) consistency
empirical adequacy
applicability
context-reliability.

A knowledge claim is (formally, logically) consistent if it does not contain contradictions or plain incoherence. This is indeed a limited condition of truth[14]. Empirical adequacy means that the claim fits empirical findings. The statement that a particular chemical substance reacts on certain brain cells in a specific way is an example, when it indeed corresponds with the data. Not only single statements, but also more complicated knowledge claims which result from following a particular explanatory strategy, such as the nomological one, should be judged in terms of their (formal) consistency and empirical adequacy.

Besides consistency and empirical adequacy, there are additional criteria which become especially relevant when knowledge is put into action:

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12 Now and then remarks are made that seems to recognize something like quality. Take CHOO (1998) who says a few things on the quality of information.

13 Sometimes called 'propositions'.

14 In the philosophy of mathematics much attention has been given to the question whether logical consistency is a sufficient criterion for mathematical existence. Some thinkers were saying "Yes, it is", others, i.e. the intuitionist, denied this.

'applicability' and 'context reliability'. The insight concerning the chemical substance just mentioned becomes applicable when it is justified to say that, generally speaking, it can serve a practical neurological aim, for example, having a healing effect on synaptic disorder. In addition, context-reliability, would in this case require that in concrete situations the healing effect can be effectuated with good results. Besides, this criterion also demands further specification of what is to be considered as "good": side-effects of using the substance as well as the conditions under which the healing effect comes about (burden put on patients etc.) should both be acceptable.

When knowledge is used in concrete action, empirical adequacy and applicability are indeed not enough; context-reliability is essential. In other words, the proof of the pudding is in the eating. The illustration from (medical) chemistry used above is just one among many possible others.

b) Profoundness

A's knowing X can be rather superficial. Knowing about particular computer software is mostly rather slight. However, when based on real insight in the construction of fundamentals of the software, language of programming etc., it has more depth. Knowledge of a mathematical algorithm without understanding its justification is superficial. If a consultant knows about the formal structure of a particular company without being familiar with its historical background, of why it has this particular structure, the actual meaning given to it, etc., then his knowledge is lacking profoundness too. Depth might also point to the cardinality of the questions asked. Often questions preserve the conceptual frameworks in use. However, they can also put them to the light, seeking novel understanding.

c) Sources of Knowledge

What I have in mind is the distinction between knowledge by hearsay and knowledge by actual experience. In connection with the latter also the expression 'acquaintance' can be used in the sense of having 'personal knowledge of', being 'familiar with'[15]. Much of what people know is hearsay[16]. Our system of education is imbued with this, and when S justifies his/her knowing of X by referring to a newspaper article, or to what another person told, this is a matter of hearsay too. The same applies to a CEO who takes the figures given to him by his accountant for granted, or

[15] This is a weaker meaning compared the one 'acquaintance' sometimes has in epistemology, i.e. immediate infallible awareness, related to a foundationalist ideal.

[16] In epistemology some aspects are discussed in terms of "testimony". See SCHMITT (1999). Some things can only be known on the basis of testimony, i.e. one's date of birth.

when he makes some statements included in a file, written by one of his predecessors, to his own. Life is full of such examples.

Knowing by hearsay is always bound to the tension of presence and absence. It involves a kind of second hand presence constituted by the particular representation used (statement, drawing), while what it is about is at the same time absent. Files, for example, always have this presence/absence duality. In daily life we mostly do not see this as a problem, because we rely on the source from which the file comes to us. Sometimes, our confidence is based on a direct experience of the trustworthiness of the source, sometimes this is also a matter of hearsay. In the end, however, there has to be some real experience that is basic. These matters can be related to the notion of integrity (see section 4.a).

Besides knowing by hearsay, in epistemology often discussed under the heading of 'testimony', everybody also has knowledge by experience. If this knowledge is made explicit, the people involved also, reflectively, know about the direction of attention, which (kind of) questions were asked, which decisions were taken in order to make the lingual representation (if present), what is left out as less relevant, etc. For them, the presence in absence involved by representation is not that problematic, because they are still able to relate it to their own first hand experience[17].

The situation just sketched also applies to data and potential information stored in electronic equipment. Some people consider this as a powerful tool for overcoming limits of place and time. I do not deny its positive force, but also here it is knowledge by hearsay, not by acquaintance with what is at issue. At the same time, the thing called 'information' is being abstracted from its situational, relational, embeddedness. The latter implies that 'information' is given a different meaning from the one defined above (see 2.d). If so, then IT might perhaps be said to create its own world[18].

4. Justification

The preceding argument sometimes referred to the justification of knowledge (claims). I will now say a few words about this issue, which is central in epistemology.

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[17] Especially Derrida has made the idea of presence and absence into an important topic of his philosophy. However, he is quite radical in his critique of the so-called 'metaphysics of presence'.

[18] Whether this is brand new or whether it is comparable to what language, narratives, potentially can do is an interesting question. I will not discuss it here, however.

What has been said earlier about 'S knowing so-and-so about Pn' can be generalized in the sense that 'S knowing so-and-so about X' requires that 'so-and-so' is correct statement of something characteristic of X. It goes without much saying that in the context of relational epistemology and connected epistemic variety the so-and-so can mean many different things. This of course also influences actual justification, which, for instance, in the case of nomological knowledge will presumably be different compared to a narrative insight. Also the diversity of quality influences justification. In contemporary epistemology much is said in order to understand what it means for a subject S to know P, 'P' standing for some kind of proposition, indicating the content of a certain kind of the so-and-so just mentioned[19].

a) S knows P

In 20th century epistemology, an usual approach is the one in which it is said that S knows P if and only if i) P is true, ii) S believes P, and iii) S is justified in believing P; knowledge as justified true belief (JTB). In the sixties, however, Gettier formulated some counterexamples to the just mentioned explication. All these counterexamples concern situations in which the conditions of JTB are fulfilled but, because it is only by chance that P is true, they are not cases of knowledge. An instance of a Gettier counterexample is B seeing a ball which looks red to him. B not knowing, however, that the ball is shined upon by red light and would look red to him even if it were not red. Now, B, notwithstanding having a justified believe, does not know that the ball is red if is indeed it red, because 'P is true' is not determined completely by ii) and iii). So, all accounts of knowledge in which there is a small gap between truth and the other conditions of knowledge are Gettier vulnerable (Zagzebski 1999, p. 101). This started a new round of discussions seeking an understanding not having this property. Often this boils down to adding additional conditions giving further explication to what it means to be justified in believing P, thereby closing the gap to its truth. An example is the following notion of being objectively justified: "S is objectively justified in believing P if and only if S instantiates some argument A supporting P which is ultimately undefeated relative to the set of all truths" (Pollock 1986, p. 184).

Looking at this kind of analysis two remarks can be made. The first is that the explication refers to the set of all truths, which seems to exist of and on its own. This means that, seen in this way, 'S knowing P' is always

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[19] I will not address the question of the ontological status of propositions. Moreover, from a relational point of view epistemology cannot confine itself to **'S** knows **P',** in which '**P**' indicates some kind of proposition.

relative to an independent, independent from S knowing or believing P, preliminary truth of each element proposition of the set of all truths, without human beings recognizing this truth. From a relational perspective, this sounds somewhat peculiar. Now, strictly spoken, there is at least one philosopher who is making this explication and (potentially) refers to the truth of these propositions. The second remark concerns knowing the truth of the propositions of the set mentioned: this will never be completed, so it seems that the condition cannot be fulfilled; moreover what justifies knowledge of each of them? This latter would require further arguments and, therefore, threat of a potential regressus.

b) Virtue Epistemology

In order to meet the Gettier problems a recent development is so-called 'virtue epistemology'. Its focus is not so much on the properties of beliefs but on those of people. It starts from:

i) the view that 'S knows P' can never be something standing on its own but needs to refer to S as being in an environment, under particular conditions busy with a certain intellectual field, and from

ii) the idea that justification need not always be argumentative.

Especially ii) is explicated by the "knowing out of virtue". An example of a definition of the notion of virtue is the following: "a subject's S's intellectual virtue V relative to an "environment" E [is] S's disposition to believe correctly propositions in a field F relative to which S stands in condition C, in "environment" E" (Sosa 1991, p.140). According to Sosa, asking for justification eventually indeed refers to 'knowing out of virtue', i.e. to beliefs which are "apt". The latter is defined as follows: "the "aptness" of a belief B relative to an environment E requires that B derive from what relative to E is an intellectual virtue, i.e. a way of arriving at belief that yields an appropriate preponderance of truth over error [not by accident]" (op. cit. 289).

Looking at the just quoted explication makes clear that the intellectual virtue V is not something isolated. It refers to the ability of discriminating truth from error, which can be considered as a virtue too, related to a certain field and environment. This is an indication, I think, that virtue epistemology can be brought into alignment with relational epistemology. Indeed, intellectual virtues are not standing alone, they refer to people, their expertise, operating modes of attention, situations, fields etc., and as such they are co-constitutive of the knowledge-relation. Intellectual virtues can point to using of methods (logic, statistics, experimenting), but they cannot be reduced to these. Moreover, also doing epistemology, opting for reflective understanding of knowledge, can said to refer the intellectual virtuous.

5. Summarizing Conclusion

Before starting with the next part it is necessary to focus on what is essential for the argument developed thus far:

- ◊ all knowledge is normative relational; from *this it follows that*:
- ◊ knowing is neither a passive reception nor pure construction; *this means that*:
- ◊ giving attention is conditional for what we come to know;
- ◊ reflective consciousness of epistemic variety and potential diversity of knowledge quality is crucial for giving attention; *this means that*:
- ◊ justification has to reckon with variety and diversity; and also has to take:
- ◊ intellectual virtues into account.

The relational epistemology, on which this article is based, asks us to keep all the items mentioned in mind when knowledge, seeking it, using it, etc. is involved.

III. Epistemological Issues and Organizational Practice

As said in the introduction, I will explore epistemological issues which might be involved in organizational practice. Now, what could we think of in connection with this? In what sense does knowledge plays a role, such that (relational) epistemology might become relevant? These are questions in need of further exploration. I think that there can be different directions where to look:

a) the role of knowledge in and with regard to organizational practice, broadly taken, and;

b) acting with regard to knowledge.

In connection to both, a general theme will be how to value epistemic variety. Important issues are, for instance, i) "which aspects of quality of knowledge are to be cared for?"; the argumentation favoring any answer will have to refer to epistemic matters, and ii) "which explanatory strategies and cognitive tools are crucial and how can they be legitimatized?"[20].

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[20] If local, concrete, personal knowledge is valued, then this brings in issues as discussed by TSOUKAS (1996).

1. Action Regarding Knowledge

Acting regarding knowledge itself points, for instance, to policies involved by so-called knowledge management, also seeking creativity and innovation, as well as making public claims to knowledge. An example of the latter is a pharmaceutical company publishing the results of Phase One clinical research. This kind of research concerns the safety of a potential product; people are to be monitored for changes in health as a result of using the drug. The search is – basically - for possible side effects, and mostly it includes a smaller number of participants who even may be completely healthy. In terms of the criteria of quality discussed in section II.3.a, what matters here is a particular aspect of context-reliability. In this case, the question is "When can a company be sure enough to make things public?", which refers to the problem of justification. Wisdom requires them having sound enough explicit ideas about this, for instance being clear that they are not fallen victim to some kind of Gettier fallacy. If not, then the company might have difficulties in coping with the pressures of bringing matters into the open too early, for instance, influenced by short term lack of capital (pushing up share values, in order to raise new money from the market); this can be very damaging in the long run. So, cultivating intellectual virtues of company members involved is important too.

Knowledge management requires knowledge about knowledge, of course if management is not to be considered as a leap into unknown territory. First, one may suggest that this meta-knowledge can be confined to, for instance, insights of psychology and sociology of knowledge. As indicated earlier (section 2, introductory remarks) however, psychology and sociology, both being empirical disciplines, cannot fully answer normative questions, such as how to value aspects of epistemic variety, what kind of knowledge is to be sought, issues which under particular circumstances cannot be avoided. Moreover, it is easy to see that, as far as knowing plays a role in actual knowledge management, one must be sure enough of the quality of the claims involved. Eventually this boils down to finding context reliability. A consultant, I met somewhere, told me that according to him the conscious creation of chaos in organizations is an important means of stimulating the development of new knowledge (see also Nonaka/Takeuchi 1995). To some ears, this statement may sound attractive. However, without further specification, it is doubtful whether the requirement of context reliability is really met. Seeking new knowledge requires creativity, and it is questionable whether mere chaos can be favorable without exception. An

important factor of creativity is, for instance, attentiveness[21] (Brodbeck 1999), a kind of concentration which can accompany many activities of people. It can support creativity in two ways. Firstly, people remain concentrated on the goals they want to achieve and the concepts they use. The second way highlights possibilities for thinking and acting not considered before. Essential for this kind of attentiveness is the ability and willingness of people to see through their own conceptualizations, feelings, emotions, perceptions and realities that are involved. It is not difficult to imagine, however, that chaos – to say the least - will not always be a positive influence on both occasions. So, if context reliability is not part of one's epistemological vocabulary one can easily be led astray.

2. Knowledge and Organizational Practice

Concerning the role of knowledge and organizational practice one may think of different fields of action, concerning i.e. i) primary goods and services, knowledge used for, respectively, producing and/or realizing them as well the one 'built into' them, ii) internal affairs of management and organization itself, and iii) everything which regards good governance[22].

Relevant items, connected to good governance – sometimes considered in terms of societal responsibility or corporate citizenship - are auditing, monitoring, and quality of organizational performance. Key issues are transparency, integrity, openness and avoidance of fraud, of which one can ask how they might relate to epistemology. Sometimes there is overlap among the three themes mentioned in the preceding paragraph. Take, for instance, the respective practices of scenario planning and measurement of organizational performance. They can be linked to ii) and iii). Scenario planning sketches different, 'un-present', potential futures. In connection with this, the people involved can seek the kind of organization needed for coping with each of the scenarios studied. At the same time, they might also say something in terms of the preferable future, preferable in terms of a company's view of social responsibility. An important epistemological issue is what kind of knowledge, if any, is generated by scenario planning. Shell, for instance remarks the following: "when we reflect on situations or the future, we see the world through our own frames of reference. The purpose of scenario work is to uncover what these frames are, respecting differences

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[21] Above I mentioned 'attention' as crucial for epistemic variety (see section II.1.a), which is not at odds with Brodbeck's views of creativity.

[22] Knowledge related to good governance is, for instance, relevant in case of cooperation between organizations.

rather than aiming for a consensus that puts them to one side"[23]. This makes clear that self-knowledge is seen as one of the potential gains of scenario planning.

Measurement of organizational performance is often done by introducing 'indicators', which can easily be handled. Examples are number of verdicts in the case of courts of law, number of 'bed days' sold by hospitals, number of students passing the final exam as measure of quality. Whether these indicators really say something in terms of 'quality' points to the epistemological question of validity (I will also refer to this point later on (see section 4.c). As such, every kind of measurement focuses on particular items and 'forgets' about others. Whether this 'forgetfulness' is detrimental to the idea of quality is not something which can be considered without a close look at the kind practice (law, health care, business, etc.) at issue. Also 'profit' as an indicator of business performance is not simply to be taken on face value. Even specific subject matters such as complaints by customers, patients, citizens, employees etc. about (organizational) actions or negligence, can be mentioned as having potential relevance in connection with organizational performance. I mention this issue because it points to the realization of quality 'on the spot', in concrete actual cases. While related to i), ii) as well as iii), one might, intuitively, guess that the answer of why complaints are important (can) involve(s) epistemological affairs, especially referring to the value given to concrete, local, knowing by customers, patients, as they have particular first hand experiences (knowledge by acquaintance, see section II.3.c) with products and services, etc.

Of course it is not possible to address all themes mentioned in just one paper. I will therefore have to make a selection. I have given attention to knowledge management and creativity elsewhere (Schipper 2005; Schipper 2001), now I will confine myself to some of the items involved in the subject matter of good governance.

IV. Epistemology and Good Governance

Talking about good governance is done in different vocabularies which also show some overlap. Some of these vocabularies pivot around the notion of social responsibility of organizations, other lay more emphasis on the idea of corporate citizenship. Apart from these differences items like transparency,

[23] http://www.shell.com/home/content/aboutshell-en/our_strategy/shell_global_scenarios/what_are_scenarios/what_are_scenarios_30102006.html. Accessed 10 April 2008.

integrity, and avoidance of fraud, mentioned above, are relevant in connection with both. Well then, how do, for example, transparency and integrity refer to epistemology? When will it be urgent to give - in a practical context - attention to them in connection with epistemology? These are indeed relevant questions to be asked in the context of this article.

1. Transparency

Transparency is mentioned as an important item in connection with governance, whether it concerns business, governments, health care, or whatever. We have organizations like Transparency International, in November 2005 the Commission of the EU launched its European Transparency Initiative, and many other examples could be mentioned. In the world of business references to transparency are widely present. In 2002 the US' Sarbanes Oxly Act passed, a new regulation, dealing, inter alia, with auditor independence, corporate responsibility, financial disclosures, in order to secure accountability, responsibility of those involved in declarations concerning the financial status of public companies. In all cases mentioned, transparency is considered important because it is believed to be critical: for the private sector because it, among other things, contributes to better decisions and investments; in connection with governments because the general public can verify performance and compliance to law. It is not uncommon to speak of a "culture of transparency".

Nowadays, 'transparency' is often identified with accounting for something. In doing philosophy, looking at meanings behind such identification is important. So, in order to get some understanding, we have to see that the concept of 'transparency' has two meanings. The first one is, literally, visual un-presence. An instance would be the 'transparency' of glass, denoting indeed its visual absence. People also speak of 'transparent' conceptual systems. Doing so, indicates – indeed metaphorically – that seeing through them, makes an un-disturbed, correct representation of reality possible. The second meaning is related to the notion of un-hidden presence[24]. In this sense, the financial situation of a company, for example, can be termed 'transparent', saying that everything, as seen from an outside position, is

[24] One can find this meaning already in the philosophy of Rousseau. In his view, reality, including ourselves and people, originally had a natural, unforced, transparency. For historical background see SCHIPPER & BOJÉ (2008)

crystal clear[25], nothing remaining covert, nothing existing behind it. In connection with accountability, today's emphasis is on the second meaning. This does not come out of the blue, but is due to scandals like Enron, Ahold, financial manipulations, bad labour relations in supply chains, etc. Also recent problems related to sub-prime loans can be mentioned here. Both meanings mentioned meet in one when it comes to being informed transparently. As such transparency can easily be linked to a particular epistemic and societal ideal: all knowledge being clear and distinct, society having no dark sides at all. However, for reasons of competition transparency in business cannot be demanded of everything, because this might conflict with the freedom needed for entrepreneurial activities. Demanding, for instance, from a pharmaceutical enterprise to give insight in all details of their research at the very outset is over-demanding indeed. Henriques (2007, p. 93, 31, 54) argues as a general rule that "where there is power, there should be transparency". This is an interesting proposal, it remains a bit unclear, however, whether it concerns actual power only or also those an agent may potentially exercise in the future.

Transparency does not match very well with ambiguity and complexity. People try to cope with these situations in different ways. Organizational and societal situations are sometimes approached by strategies of demarcation. So-called 'Chinese walls' in banking companies, preventing share price sensitive information leaking from one part of the bank to another, are an example. Also auditing can be mentioned here. Depending on the circumstances, both auditing and demarcation can be said to aim at, i) crystal clear internal organizational networks and ditto division of tasks and responsibilities, and ii) creating organizational disclosure. If so, then both meanings of transparency are involved. Recently people start speaking of the Commandment of Transparency (CT). Obeying CT, results in an imposed transparency, much different from a direct "natural", one which is supposed to have existed by philosophers such as Rousseau (Schipper/Bojé 2008). We can also relate this imposed transparency to Foucault's interpretation of the panopticum: its overseeing gaze creates a visibility aimed at establishing "power through transparency" (Foucault 1989, p. 154). It makes no difference whether CT is forced by stakeholder activism, introduced as self-regulation by particular industries or by law[26].

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[25] Transparency in this sense is not identical per se with 'presence' as referred to in connection with knowledge by hearsay and by acquaintance (see section II.3.c).

[26] One can react by saying that there never has been and can be such a direct, natural, transparency – we might also say 'power-free transparency'. We will

Laws like the Sarbanes Oxly Act use also the term "disclosure". Titel V (Analysts Conflicts of Interest) section 501 of this law says, for instance, that there will be issued rules requiring securities analysts and registered brokers or dealers to "disclose in public appearances, [..] in each research report [..] conflicts of interest that are known or should have been known by [them] [..]" (Sarb. Oxly 2002, p. H.R.3762-48). From the perspective of relational epistemology, one can say that this law asks, more or less implicitly, particular questions. In this way, the force of law is supposed to make all knowable conflicts of interest visible to the outside world by getting answers with nothing remaining hidden or sub rosa, which means that matters are supposed to be transparent.

2. Integrity

In connection with thinking and acting in terms of good governance, the concept of 'integrity' is seldom absent. Also special subject matters, like a "culture of integrity", the "integrity of audits" or a "brand's integrity", are part of the vocabulary in use in connection with matters of governance. Taking notice of integrity can be done for different reasons, some recent ones relate to the management of compliance risks and fraud. Others, more distant from the daily heat of doing business, refer to the growing attention for virtue ethics, which took place in philosophy during the last decennia. Sometimes both seem to be in alignment. The already quoted Sarbanes Oxly Act, for instance, requires, as a major contribution to improve governance, the installation of a Public Company Accounting Oversight Board, consisting of 5 members, familiar with the world of finance, "appointed from among individuals of integrity and reputation [..]" (Sarb. Oxly 2002, p. H.R.3762-7). The task of the Board is registering and overseeing public accounting firms. This illustrates the high value given to this special virtue.

'Integrity' comes from the Latin 'integer' which means something like 'whole', 'complete', 'unbroken', 'in one piece', and this concept is being used in many different contexts such as medicine, technology, ethics etc. 'Integrity' always involves a highly valued property, condition or situation, considered in terms of wholeness. Acting with integrity means acting 'in one piece', the things done are indeed what has been told, not from sheer obedience or following rules, not having a suspect agenda, nor saying or act

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not deal with this issue, however, because this requires a far-reaching philosophical analysis, in which both epistemological and ontological matters are to be involved as well as historical positions to be discussed.

at a certain moment 'A', and the next time, without any specific cause, 'not-A'. Moreover, being integer does not make others having to face unpleasant surprises or exclusive focus on private interests.

In professional and organizational contexts all this counts too. Auditors, for example, need professional integrity because not everything they do in order to come to a judgment can be reduced to following strict procedures[27]. Hence, this links integrity to intellectual virtues (see section II.4.b). Keeping an eye on sociology, it is not uncommon to use the expression of 'role integrity', while at the same time pointing to the variety of possible roles and loyalties an actor can have, including conflicts between them. The different roles point to different 'partial integrities'. Sometimes, conflicts of interest may arise, in which case it would indeed be possible to attend only to one of them. If so, then negative effects are likely to happen. It is for this reason that integrity management, helping people to become sensitive to such conflicts and coping with them is worthwhile. Solomon, defending an Aristotelian, virtue ethical, perspective on business ethics, speaks of integrity as a kind of "super-virtue", saying that it is "the essential virtue to a decent life [..] 'getting it all together'" (Solomon 1993, p. 174).

The relationship of integrity and transparency is an important subject matter. It seems that the former is more basic (Schipper 2007). People of integrity, for example, need not be transparent, although an individual who is not a square fellow might indeed want to hide things.

3. Epistemology: Transparency, Auditing and Integrity

At the beginning of chapter IV, I formulated two questions: a) How do transparency and integrity refer to epistemology?; b) When will it be urgent to give - in a practical context - attention to related epistemological issues? I will start by exploring a). Having done this the second question will be addressed too.

a) Transparency, Auditing and Integrity

Answering the question "how do transparency and integrity refer to epistemology?" can refer to different issues. Worth mentioning are the problem of the validity of transparency judgments, the focus of knowledge due to transparency, and the relationship with auditing. Moreover, knowing

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[27] In the philosophy of auditing expressions such as 'the integrity of financial information', 'the integrity of the audit function', the 'integrity of internal control', and 'capacity for integrity' of the auditors are fairly common (see FLINT 1988).

about integrity is also a relevant subject matter, and it will turn out to require its own approach.

Transparency

When something is said to be 'transparent' then all is considered to be clear, no more is to be known, what is at issue has no inner horizon, everything lies at the surface, etc. So, from a relational epistemological perspective, this is an epistemic and ontic judgment indicating that everything knowable is clearly known, no more questions are to be asked. The object and what is actually known about it (seem to) become 'identical', so to say. In terms of quality of knowledge, thinking that one has an insight with 'transparency' is indeed making a meta-claim over and above the ones mentioned in section 2.3.1. Important (epistemological) questions to be asked are: "Can we know, and if so, how do we know about transparency?"; "When is a transparency judgment justified?".

Transparency, as defined, means that everything lies at the surface, etc., that representing it does not involve any tension of absence and presence. This means that a transparency statement makes a very strong meta-claim, so strong that it is doubtful whether we indeed ever (justifiably) know about transparency. Generally speaking, it seems indeed to be more an act of faith than knowledge. Perhaps it does make sense to distinguish 'absolute' and 'relative' transparency, the first meaning that all things knowable are known with clarity, the second that only what we know is known this way. The latter is a much weaker claim than the first, and it is also more consistent with a relational epistemological point of view.

In the context of M&O, a tentative first answer concerning relative transparency might be: "We know about it, if we know that transparency measures are correctly implemented". At the utmost, actual insight is a mixture of testimony and acquaintance, the latter taken in the wide sense indicated in II.3.c. For many people, knowing about transparency will only be a matter of hearsay. So, insights are always relative to the judgments of others. This means that it is our trust in the intellectual virtues of them which co-constitutes the basis of what we think, often to a very high degree. Moreover, it can be argued that obeying CT introduces something new into the organizational context. Precisely this contributes to complexity again, inducing new possibilities of confusion and ambiguity[28]. Hence, even in case of 'being acquainted with' the indicated implementation it is still possible that something might be overlooked.

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[28] That things are added is also indicated by the extra costs made for effectuating the strategies mentioned.

Another matter we should be conscious of is that, as far as epistemic variety is concerned, transparency induces a tendency to seek the measurable, the orderly, that which can be gained if we abstract from the situational hustle bustle and ambiguities of daily life. Also monitoring performance indicators need to be mentioned here. In connection with monitoring Roberts (2003) is saying that contemporary society uses powerful accountability systems - "systems of visibility". They are connected to CT and consist of concepts functioning as lenses for making companies and other organizations visible, also inducing a self-disciplining logic, leading to an imposed - organizational reality shaping - transparency[29]. Roberts argues that a particular side effect may happen: indifference to everything not required by actual CT (Roberts 2003). If so, then this side effect will limit responsibility and sensitivity to exactly the things required by CT.

Considered from a relational epistemology point of view, both tendencies mean a limiting of attention (see II.1.a) and, therefore, of what comes into view indeed. If so, then emphasis is laid on the abstract and structural (see II.2.c), questions of meaning and narratives, etc., as well as other matters outside the indicators will be overlooked easily while they are beyond the scope of attention. Is this a loss? Any answer to this question depends on the actual circumstances, the kind of practice involved (field + environment, see 2.4.2.), etc. Sometimes it can indeed be a serious loss, sometimes perhaps not. What is at issue here relates also to the 'validity' of the chosen 'indicators' (see section 3.b).

Auditing

In section IV.1., the practice of auditing was mentioned in connection with CT. An answer to the question "How sure are we about transparency of, for example, the financial situation of a company?" might be: "that depends on the quality of auditing". Indeed, as far as transparency is concerned, this causes a shift in focus of CT. Now the emphasis is on transparency in connection with auditing itself. Recent discussions about the necessity of splitting audit firms, the actual practice of auditing and consulting becoming more and more intertwined, point to strategies of demarcation in connection with these firms themselves[30]. Noteworthy, for example, is that The Sarbanes Oxly Act, Title II-Auditor Independence, contains a list of activities

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29 We see here reminiscences of Foucaultian ideas.

30 It is not impossible that this split is experienced as dichotomising professional life. How this should be estimated, depends on the meaning given to the professional practice involved. This, however, is not a matter of personal taste but a philosophical issue.

prohibited for registered public accounting firms to provide to issuers "contemporaneously with the audit". Among them are "bookkeeping or other services related to the accounting records or financial statements of the audit client" and "legal services and expert services unrelated to the audit [..]" (Sarb. Oxly 2002, H.R.3763- pp. 27, 28). The idea is that keeping this law contributes to more transparency, hopefully this will indeed be the case. Flint (1988, p. 155), however, makes clear that auditing itself always has an intuitive component. If so, then this sets unavoidable limits to auditing based on argumentative, rule-based, justification. Besides, auditing also depends on measures taken on behalf of the organization, the transparency of which is not self-evident.

So, auditing itself is never completely transparent, it has its own questio transparensis. Hence, those parties in need of audit judgments have to cope with a double-sided difficulty. In this situation the hazard of being confronted with a sort of 'pseudo-transparency' is never absent. The Nike Company, for example, seems to be conscious of these problems (Nike 2005, pp. 39-44). However, cynical readings are possible too. So it is said, for instance, that "for many retailers, audits are a way of covering themselves" (Roberts & Engardio 2006). The question remains: "how can we know that audits function (im-)properly?". Is this, for instance, possible when we have audit-independent knowledge by acquaintance of matters audited, or know about the auditor's integrity? Perhaps so. In the first case, however, the audit seems rather superfluous. The latter makes looking at integrity from an epistemological perspective becoming highly relevant.

Integrity

Trusting audits and/or auditors is, in the end, based on believing that everything done is done with integrity. So, how about integrity judgments? In connection with these, there is also an epistemological issue. An actor's integrity, whether it concerns persons, professionals such as auditors or organizations cannot be proven objectively, that is to say, by means of a valid, inter-subjective and clear methodology. This situation does not make us abstain from integrity judgments concerning actors, however. They are made, communicated, etc. Moreover, these judgments also play their role in responsible governance and dealing with transparency, their relevance being crucial for trust and reputation.

It is always somewhat peculiar when people or organizations attribute integrity to themselves in public, and in situations, where integrity is doubted visibly, it is very difficult to defend oneself against this on the basis of 'objective' knowledge. Because there is no clear methodology, knowing about integrity is always vulnerable: every person or organization has its

own 'mystery', so to say, inaccessible from the outside by any method or by CT. Saying this does not exclude the possibility of actors, human or organizational, unwittingly 'making' themselves known over time in concrete actions involving particular situations. This is especially important in connection with integrity judgments. They can, therefore, only be meaningful if based on close contact of those involved, expressing, in one way or another, a sort of local personal knowledge. Otherwise, testimony, hearsay, and all talk accompanying it, would be the only thing available giving food to matters of reputation.

Broadly taken, saying that an actor has 'integrity' is pointing to an, indeed fallible, particular kind of knowledge of the 'other' (people, organizations), which has it own modes of attention. It always involves Verstehen (empathy) based on real contact. Above, we saw that transparency induces a tendency to look for the measurable. Somewhat contrary to this, it has to be said that learning about integrity requires emphasis on the concrete and content dimensions of knowing (see section II.2.c), especially in connection with direct communication of those involved. Hence, integrity judgments in their own way depend on responsibly giving attention and valuing epistemic variation (see section II.1.a.).

I will conclude this section saying that knowing about and counting on the integrity of others also requires integrity of the one who is judging these matters. This, once again, relates to the issue of justification. As argued in section II.4., epistemic discussion of justification points to the notion of intellectual virtues; should integrity not be one of these?

b) The Relevance of Epistemology

Organizations and other actors, having an interest in transparency and integrity, should at least be conscious of difficulties, risks, impact of ill-judgments, etc. In the preceding section a number of these have been sketched from an epistemic perspective. The conclusion, therefore, is that in the context of good governance epistemology is indeed relevant. Whether in an actual case it would be important to give attention to these matters depends, of course, on the specific circumstances. Different examples can be given, in which doing epistemology, focussing on transparency and integrity related matters, would be advisable.

Take for instance e-sourcing, a recent development in the practice of sourcing. E-sourcing is praised as having a huge cost savings potential; the range of possible suppliers becomes much larger – even worldwide - and organizations can organize, with the help of particular software, their own 'auction' for the goods or services they want to buy. However, would it not be wise that an organization, on the brink of becoming involved in

e-sourcing, has some understanding of potential hazards involved by this new practice, especially those related to the epistemic conditions of transparency and integrity? An important issue is also how suppliers are to be considered. Is it enough to view them as sellers of the needed goods, and nothing else?; does the buying organization only has to look at economical aspects (price/ quality), without any further responsibilities? Or is this too narrow a view? From a perspective of good governance, I would say it is. And especially because of this, for example, labour relations and environmental issues have to be taken into account too. In such a situation market transparency becomes important, and the buying company also has an interest in knowing about integrity of the suppliers. So, in connection with e-sourcing knowledge concerning both is relevant indeed. In addition, I would say that it is also important to be aware of the relational character of knowledge and the epistemic conditions involved. Noteworthy, in any case, are: the potential less positive side effects of CT and the role of attention, diversity of demands for knowledge quality, etc., all pointing to the difficult issue of justification of knowledge claims.

About two years ago I visited a small brewery. It was interesting to see that, despite current trends such as e-sourcing and looking for cheap resources all over, the brewery is locally rooted with regard to suppliers, workforce, etc., having long term relationships. Take hop, essential for the production of beer. The brewery is always purchasing it from the same local growers, who are using dung coming from cows of neighbouring farmers. These farmers add food supplies, which are a side output from the brewery's production of beer. Ideas about good governance stimulate the brewery and its suppliers wanting to close this 'circle' (chain) as much as possible. Although not using the terminology, the people I met showed some intuitive epistemological understanding. Asked explicitly about it they, for instance, felt it to be too risky to trust (indirect) transparency created by CT, and knowing from a distance was, in the case of integrity, seen as not very relevant. Reflecting on it, they were strengthened in their conviction that only close contact could give the brewery sure enough knowledge - based on its own judgment - of what is going on in the indicated chain. So, imposed transparency concerning the production processes in use by suppliers became less important. At the same time, beliefs about integrity were supposed to be supported by long term personal contact. The latter is in line with the analysis of the epistemic condition of integrity as developed in section IV.3.a.

V. Concluding Remarks

In this article, attention has been given to epistemological issues as they might be involved by organizational practice, and especially to some of those which relate to the issue of good governance. Of course another focus could have been chosen as a contribution to the philosophy of management and organization, for instance, epistemology in connection with organization studies and management theory. This would be more in line with current discussions of, for example, realism and constructivism in connection with scholarly research. The interest of these topics notwithstanding, I decided to explore a more practice oriented perspective. The reason is that I am often presented with questions concerning the day to day relevance of doing epistemology. Pragmatist philosophy has once formulated the challenge "why doubt in philosophy what you not doubt in life?". Although I am not a pragmatist myself, I can see some sense in this attitude towards the philosophy of M&O: show us what difference it can make and when it might become relevant of, for instance, becoming involved in doing epistemology. With the analysis presented thus far, I intended to make a start in this direction.

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Part C

Philosophy, Economics, and Business Ethics

Chapter 5

Values and the Limits of Economic Rationality: Critical Remarks on 'Economic Imperialism'

Christian Krijnen

For Bas Kee

I. Economic Imperialism?

Perhaps there have been at least as many attempts to answer philosophical questions by means of an approach belonging to one or another special science as there have been attempts by philosophy to defend her right to an authentically philosophical approach. Questions about the nature of man and his world, culture, are especially at stake. However, the matter of *reductionism* does not just play a role in the relation between the special sciences and philosophy: within the special sciences themselves too there has been much resistance to the urge for expansion of certain approaches to the detriment of others (this holds outside science too: one can think of the resistance the anti-globalization movement offers to 'neo-liberalism').

Currently it is not just biology, but also (partly in connection with biology) *economics* which is trying to break out of its original range, and claims to be developing *a universal theory of human behaviour* (cf. paradigmatically Becker 1976, Part I). And why not, actually? Humans have to act, even if only for reasons of physical existence, therefore they have to choose, hence

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bring about an optimal relation, in one or another sense and in one or another way, between the 'costs' and 'benefits' of behaviour (that is to say, if we conceive of human behaviour as a rational activity and not merely a natural process). Economics is about optimal relations qua maximal 'utility'. From this point of view rational behaviour is determined by economic principles. If this is the case it stands to reason to think that the economic approach is capable of offering a universal or a basic theory of human behaviour. – To be sure, the protagonists of such a theory accept 'non-economic' aspects, which are said to be relevant; although from a methodological point of view it remains unclear what this relevance could mean, since the point of the thematic expansion of economics precisely consists in determining the phenomena by means of concepts that are characteristic of the economic approach: from the point of view of the economic approach, non-economic aspects strictly speaking either are given boundary conditions (exogenous variables) or they are unknowable (hence irrelevant).

In the literature this economic variant of a universal theory of behaviour is known as *economic imperialism* (Radnitzky/Bernholz [Eds.] 1987; Sappinen 2003); without a doubt Gary Becker is its most important spokesman. This is not at all to say that economic imperialism is uncontroversial within the economic sciences: the opposite is the case (Sappinen 2003, pp. 18, 94ff.; Manstetten 2000, pp. 100ff.; Frambach 1996, pp. 107ff.; Biervert/Wieland 1990). Nevertheless it is very influential, in the other social sciences as well. Here the 'rational-choice-model' (RCM) is frequently employed to explain social phenomena. However, the RCM formally speaking is the approach of neo-classical economic theory, i.e. the (despite all criticism) standard setting form of micro-economics. This approach is rightly entitled that of the homo oeconomicus (Kirchgässner 1991; Manstetten 2000).

By taking a closer look at the presuppositions of economic imperialism I want to show that for reasons of principle it can offer neither a universal theory of action nor a basis for such a theory. Take note: these considerations are *not* a criticism of the conception of economic rationality as it is interpreted in 'economic theory', *but they criticize a particular interpretation of this rationality, namely that of economic imperialism*. On the topic of the elaboration of my claim against economic imperialism and its place in the discourse on the RCM the following three remarks:

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[1] On economic imperialism recently cf. SAPPINEN (2003), compare also MANSTETTEN (2000, pp. 96ff.) or supporters such as MCKENZIE/TULLOCK (1978) and BOWMAKER (2005), with the telling subtitle: 'a complete guide to life, death and misadventure'.

(1) I assume a familiarity with the RCM and the neo-classical concept of rationality.[2] Notions such as 'abstraction', 'given preferences', 'methodological individualism' and 'the maximization of utility' play an important role in this; moreover physics turns out to function as a methodological paradigm for the neo-classical approach. Under the title of 'rational choice' the neo-classical economic conception of rational behaviour has figured for some decades now as a general theory of rationality;[3] strictly speaking the economic model of explanation is the RCM.[4] In the final analysis the RCM says the following:[5]

- Through their behaviour humans try to maximize their *utility*: rationality is essentially the calculation of utility. Utility is the final decisive motive for human action.
- Action is the action of *individuals* satisfying their *self-interest*. The acting subject has his self-interest as his sole aim.
- Self-interest means something like the *preferences* (desires) of the acting subject.
- This subject has an ordered (and consistent) whole of *given* preferences;
- he is *informed* about the probabilities of satisfying his preferences through his actions, hence he has a number of 'beliefs';
- and he is able to *calculate* the (expected) utility of his actions.

This also means, among other things, that rational behaviour in the sense of the RCM is *instrumentally* rational behaviour: behaviour that realizes given goals (preferences, desires) in a utility-maximizing way, that is to say that it puts the available means (actions) to their optimal use. It is a form of rational behaviour that does not include reflection on the goals themselves, or to put it more accurately: it precludes reflection: *the rationality of goals is for*

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2 For a succinct presentation of the essentials of the neo-classical approach to human behaviour see, for example, McKENZIE/TULLOCK (1978, chap.1); KEE (2004); MANSTETTEN (2000); PERLOFF (2001, pp. 73ff.).

3 From this point of view the RCM has an economic essence (BIEVERT/ WIELAND 1990, p.19). Neo-classical micro-economics determines economic behaviour in terms of choices based on rational self-interest. Depending on the perspective, of course the opposite holds as well: from the point of view of content the RCM is a formal moment of economic rationality neo-classically conceived.

4 For example cf. BECKER (1993, p. 396), SEN (1977, p. 323) or MÄKI (2002, p. 237ff.).

5 There is enormous variation within the RCM and its literature is without bounds, but every specification of the RCM follows the 'economic' logic of action that characterizes the RCM. Cf. the authors mentioned in the text for criticisms of the RCM, but also, for example, ARCHER/TRITTER (2000) or HOLLIS (1994).

methodological reasons not taken into consideration: they cannot be 'rationally' justified in terms of the model.[6]

(2) The basis ideas of the RCM that have just been mentioned give rise to rather many questions; they are criticized frequently *within* the discourse of economics itself. However, it is of importance to my claim that such criticism is of a primarily *empirical* nature. As far as the criticisms are concerned there are two leading tendencies:

The first tendency puts it finger on the following: Human behaviour is more *complex* than the 'physicallistically' oriented RCM is able to bring out. Notions such as creativity in particular, the setting of and being concerned with goals and social action in a constantly changing ('open') environment are brought to bear on the RCM (cf. Chick 1998; Dow 1999; Johnson/Duberley 2000). – Even if critics emphatically put forward *normative* elements in human behaviour against the RCM, such as 'commitment' (Sen 1977), 'values' (Etzioni 1988, chap. 6 in particular), 'agency' or 'affiliation' (Nelson 1994), their criticism remains empirical, that is to say methodologically bound up with the point of view of empirical science. From this point of view the assumptions of the RCM turn out to be 'unrealistic': empirically unfounded (this also holds for critics such as Elster (1983; 1984; 1989a), Kahnemann (2003) or an 'apostate' such as McKenzie (1983, e.g. pp. 32f.).[7]

The *reflexive* argument – that is central to my criticism – does not play any significant role for these critics. However, just like these critics I am of the opinion that the concept of rationality of the RCM is too narrow, that it cannot thematize human behaviour in an inclusive way – that the RCM fails as a *universal* theory of behaviour, because it does not do sufficient justice to human behaviour (with respect to its rationality).

The second tendency put its finger on this: the RCM is not an adequate theoretic *construct* for explaining human behaviour: In an influential essay Friedman (1953) said goodbye to the claims of the assumptions of economic models of representing reality; according to Friedman the validity of a model depends on the success of the predictions the model enables us to

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[6] SIMON (1983, p. 8) puts it drastically: "Reason is wholly instrumental. It cannot tell us where to go; at best it can tell us how to get there."

[7] MCKENZIE even conceives of the sphere of the origin of preferences as 'the non-rational' (1983, pp. 32ff.). ETZIONI too prematurely concedes the concept of rationality to the RCM. As against this, it will become clear that notions such as 'freedom', 'values' and 'justification' have an intrinsic relation to the concept of rationality. Hence BRODBECK's opposition of rationality to freedom makes for a distorted picture (2000, § 5.8, cf. especially pp. 254ff.). In short: a *broader* concept of rationality is required.

make (Becker (1976, p. 7) or McKenzie/Tullock (1978, p. 6) also take this view). It is not even of importance whether subjects consciously obey the logic of the RCM: the model methodologically speaking treats subjects as if they are subject to this logic: strictly speaking the difference between rationality 'in reality' and 'in theory' is irrelevant to the 'economic approach': humans are homines oeconomici by definition.[8] Hence one successful critical strategy consists of showing that predictions do not come true sufficiently, or do not come true at all.[9]

(3) Having said this I now come to the elaboration of my claim. The point on unsuccessful predictions gives us a start: from the science-theoretic point of view, to be sure, the question is if theories can be justified even by successful predictions. For if we admit that a prediction made on the basis of a model has come true, it does not follow that this result may not be explained by another model. This *fundamental proof-theoretic deficiency* is of great importance. For critics such as Sen, Etzioni, Elster, Nelson[10] or the later McKenzie propagate an *other* structure of human behaviour, whereas the phenomenon that is to be explained, human behaviour, is the *same*. They say that only within a structure of this other kind such a thing as utility maximizing is possible. It does not just follow from this that the RCM apparently starts from assumptions it does not itself justify, or is even able to justify (assumptions which, according to the critics, do not even allow for scientific justification), but at the same time it follows that the RCM cannot be the core of a universal theory of behaviour. (The question about the amount of realism of the assumptions of the model, therefore, has also been decisively answered.)

It is also true, however, that the critics have only provided fragments of this other structure (values, commitment, agency, affiliation, etc.), since they lack the *reflexive* basis that is necessary for giving shape to such a structure and to determine the concomitant concepts sufficiently. Therefore

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8 From this point of view method has an objective meaning (on this topic cf. the essays by KRIJNEN in KRIJNEN/KEE (2009)); assumptions *are* realistic if they can be *shown* to be fruitful. The only point is the *justification* of their realist character. In what way 'unrealistic' assumptions are supposed to explain actual behaviour is one of the riddles whose solution consists of a correction to the question. (MANSTETTEN (2000, p. 119, note 2) does not take sufficient account of this.)

9 Cf. BIERVERT/WIELAND (1990, pp. 22ff.), DOW (1999, pp. 10ff.), ELSTER (1983; 1984; 1989b), ETZIONI (1988), NELSON (1994) or SEN (1977; 1990, pp. 263ff.).

10 NELSON (1994) also advocates a structure that is much more complex than utility maximizing provides, namely a structure that includes qualitative notions such as 'agency' and 'affiliation'.

it is of great importance to make this reflexive foundation the explicit topic of investigation, to be more precise: to debate it with the RCM; for the broader concept of rationality will then be the result of an *immanent* critique of the RCM (qua universal conception of rationality): we find it by thinking about the presuppositions that belong to the RCM *itself*. The problems raised by problematizing the RCM are not of a kind that allows them to be solved 'empirically' or 'mathematically': they pertain to the sense and meaning of the RCM as such. It will also become clear that non-quantitative concepts are required for understanding the possibility of human behaviour and quantifying with respect to it.

II. The Being Given of Preferences and the Validity-reflexive Formation Process

In this section I want to show that preferences are not just 'given'; they are part of a reflexive formation process that has the validity of those preferences as its topic (II.1). Hence human behaviour is characterized by a fundamentally different structure from the one proposed by the RCM. I will first sketch this other structure and then discuss its necessity (II.2). If this other structure turns out to be necessary, then it must as a matter of course also be the foundation of the behaviour of the RCM theoretician: a contradiction arises between form and content of the RCM qua *universal* theory of action (II.3).

1. The Being Given of Preferences

Among other things the RCM presupposes that those involved are sufficiently informed about their preferences (needs, interests, goals, and so on). However, judgements on our preferences may well be deficient because of all kinds of cognitive, emotional or social 'confusion'. All kinds of processes that have to do with understanding, judging and criticizing our preferences, then, belong to what is known as the basis of utility calculation: preferences are not merely given, they are *evaluated*. From a logical point of view this evaluation can only be made on the basis of *another* criterion (therefore the foundations of utility calculation are not to be determined by utility theory). This process of evaluation may lead to the reconsideration of ('given') preferences and orderings of preferences. It follows that the concept of 'preference' (or one of its substitutes) is not a purely empirical (descriptive) concept: it is a *reflexive* (normative) concept, at least to the extent that a preference

functions as a *goal of action*. Self-understanding, self-criticism and self-determination are intrinsic to 'rational behaviour'. However, a reflexive structure of this kind is not conceived of by the RCM; qua universal theory of behaviour on the contrary it unthinkingly posits utility maximizing as the purpose of action: the RCM does not provide reflection on individual goals of actions (preferences, interests, etc.), since goals are merely 'given' according to the model – *qua* goals they remain not reflected on: a methodological disclosure of goals is out of the question as a matter of principle. As against that it will become apparent in the following that goals are neither simply given nor stable: they are always possible objects of reflection.[11]

Historically speaking, to be sure, 'rationality' has always also been associated with arithmetic and calculation, but the term 'rationality' historically speaking also refers to a more fundamental meaning: rationality as foundation and justification. As a disposition of man (animal rationale) rationality signifies the competence to have reasons for beliefs (regardless which), the ability to justify beliefs (regardless whether that justification is sufficient or not).[12] Competence of this kind is not limited to the validity of the means, but also includes the validity of goals: human behaviour is not merely heteronomous (determined by natural and cultural constellations), but autonomous (self-determining) too. Limiting rationality to *instrumental* rationality indeed is *unrealistic:* this limitation does not sufficiently pertain to man's rationality; rather the exclusively instrumental view makes absolute one particular aspect of rationality. The value of an action is not merely dependent on the result or the object of our will, it also depends on a certain formal structure of rational activity (known as 'practical reason'). Our practical reason does not only lead our behaviour in the sense that it

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[11] Because of this the debate about BECKER's views regarding the stability of preferences (cf. BIEVERT/WIELAND 1990, p. 23; MANSTETTEN 2000, pp. 97ff.; SAPPINEN 2003, pp. 115ff.) is irrelevant to the argument elaborated in the text: as a matter of principle preferences are subject to critical reflection, i.e. on the basis of criteria that themselves neither have a natural nor a cultural origin, namely criteria that pertain to the meaning of behaviour itself (being criteria of this kind they are not preferences in the sense of the economic sciences); they are methodologically determined by validity-reflection. – The debate on the amount of realism of the assumptions of the RCM is no more relevant, since the RCM, whether in its 'empirical' or in its 'rational' variant, cannot be the basis of a *universal* theory of human behaviour: the dimension of reflection that is intrinsic to human behaviour is lacking in both varieties.

[12] For an example from contemporary analytic philosophy, cf. BRANDOM (1994), with respect to continental philosophy cf. FLACH (1997).

takes care that we realize our goals optimally; it also leads our behaviour in an essentially *different* sense: it prescribes compulsory rules of behaviour and goals. In so doing it at the same time puts a whole of principles or criteria at our disposal that makes it possible for us to examine rules on the basis of which we act and the goals we strive for within the framework of these rules.

2. The Validity-reflexive Formation Process

If the examination of our goals of action is part of a reflexive process in this way, then one of the most important assumptions of the RCM (qua universal theory of action) becomes completely problematic: according to the RCM the over-arching goal of human behaviour is *utility* (which is conceived of as sensory):

(1) First of all everyone of us 'naturally' pursues his happiness and his advantage as a matter of course: utility/happiness is (at most) a natural final goal, a goal *given by nature*, of human behaviour; that is why it is not a goal of which it makes sense to demand a generally committing force, in the sense that everyone *ought* to pursue it. This natural final goal doubtlessly entails rather many imperatives of action: technical imperatives, i.e. rules on the basis of which we choose the necessary means for reaching one goal or another; it also entails pragmatic imperatives, i.e. rules which we must obey so that we do not ourselves stand in the way of the fulfillment of our natural need for happiness. *Instrumental* rationality in the final analysis is nothing but this type of rationality. It is a form of rationality which, to quote Kant, is only 'hypothetically' valid: on the basis of a non-necessary condition (*if* it is the case that a, then b). This is not at all to say that the relation between goal and the means to it is not objectively or 'categorically' valid, but to say that the whole relation is only hypothetically valid, since it includes the proviso that the set goal be objectively valid. (Everyone who wants to be rich has to...; but does or should everyone want to be rich? Everyone who wants to reach old age has to...; but does or should everyone want to reach old age?)

(2.1) Secondly it has become apparent in the above that human behaviour as rule-oriented behaviour is not just a natural process. Neither is it only a consequence of preferences and desires in the economic sense; for the possibility to understand, examine and evaluate the goals for which we strive is a part of our behaviour. Humans do not simply have goals, preferences, desires or the like that are to be realized as effectively and efficiently as possible for one reason or another; rather it is the case that humans take

their goals into critical consideration, accept or reject them: we are always also concerned with the *objective validity* of our goals (and means).

Apparently our behaviour is concerned with validity, both where our goals are concerned and where their realization is concerned. With this we subject ourselves to a set of validity principles (values, ideas) that ought to be normative for our thinking and action. From this point of view human beings are not just instrumentally rational and out for their own advantage, focussed on their 'life' interests, but even *in* the satisfaction of such life interests insight plays a decisive role in their thinking and action: our thinking and action ought to be *valid* thinking and action, we aim for objective validity. Even if we're wondering if our behaviour is 'useful', we're wondering whether our thinking and action are valid. Our thinking and action are by no means 'naturally' valid.

This concern with values, rules or ideas is of eminent significance if we want to know what human behaviour is. That is why I will take a closer look at some salient issues by means of illustration; I limit myself to the sphere of willing: willing is the foundation of our action according to the RCM too. The following points are decisive:

(a) As living creatures we are dependent on various natural conditions: we have 'life interests', our natural need for happiness enforces fundamental goals and objects on our will.

(b) 'Willing', however, seen as reasonable activity (reasonable desire), as willing never is without content: we always will something, our will as will always has an object. If at this point we follow Kant's instructive line of thought, then it turns out to be important that that object does not also function as *ground* for our act of willing, as a *reason* for our willing. Willing qua reasonable desire – more broadly: willing, striving, behaving, acting in a rational sense – takes place on the basis of 'concepts', 'rules', 'goals' and so on. Therefore in our behaviour not only do specific objects play a role, but something 'general' as well: a 'motive', a 'reason'. Our will is not just 'materially' determined by the object, it is also determined by a rule of behaviour, a so-called 'maxim'. Everyone of us has such 'subjective' rules of behaviour. *As* rules for our behaviour they are a product of our 'practical reason': we give them to ourselves, for whatever reason (if they are forced on us by others it is up to us to accept them).

(c) However, it is by no means the case that we just 'have' such rules, maxims: having these rules is no sufficient reason for their validity. There is no doubting for us that some rules are valid, and others are invalid. It goes without saying that this holds for the rules aimed at our 'life interests', our happiness and well-being, too: the maxims on the basis of which we act are

validity-different: they may be valid or they may be invalid – regardless of whether technical, pragmatic or those rules we call 'moral' are concerned.

(d) The validity value (quality) of an action depends on the validity value of the maxim, for the maxim, being a rule for action, is the *ground* of our behaviour.[13] Rational behaviour is behaviour based on grounds, behaviour based on reasons (of which we need not be aware), not just an instinctive response.

(e) Since human behaviour is conceived of (by the RCM too) as 'reasonable' or 'rational' behaviour, and is therefore characterized by a concern with validity (natural processes as such are validity indifferent), both the possibility and the necessity of *validity reflection* belong to such behaviour. Being rational or reasonable creatures, we are both capable of judging our goals as well as the means we use to realize those goals. Our reason is even able to provide criteria for judging, for how else would we judge these goals and means if not on the basis of criteria of judging?

(f) It is an undeniable *fact* that we *evaluate* our thinking and action (to dispute this fact is to confirm it). Evaluation presupposes criteria. Perhaps in the first instance these are traditional criteria, criteria we possess on the basis of some or other psychological, social, historical, etc. grounds. But we evaluate these types of criteria as well – we are only capable of doing so on the basis of other criteria:

(g) The validity of our criteria (rules for behaviour, norms and so on) is a topic for debate, the validity of the criterion of 'utility', or, in a hedonistic variant, 'pleasure', to take one example. Some criteria are forced on us by 'nature', others by 'culture'. Latching on to current terminology we might call these types of criteria *life values*: life values signify what is useful if we try to do as much justice as possible to our life interests: whether our behaviour is good or bad depends on the fact if this behaviour is conducive to our 'life'. There certainly is a kernel of truth in this kind of view – but it does not contain the essence. For behavioural rules of that kind *themselves* already refer to another type of behavioural rules. We must therefore introduce another type of rules: rules which we choose spontaneously, freely, that we give to ourselves, determine ourselves – no rules which are forced on us by nature or culture: our behaviour is directly determined by interests which we have qua 'rational' beings ('subjects') which are responsive to 'reason' (autonomy), not by our life interests (heteronomy). Criteria of this kind are not valid on the basis of life interests, they are valid independently of that kind of conditions: they are *unconditionally valid qua self regulation.*

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[13] With a view to my argument it is unnecessary to elaborate a theory on the validity of maxims at present.

Criteria of this kind are also known as *objective* values, *ideal* values, *unconditional* values, *autonomous* values, *cultural* values (in the universal sense), and so on.[14] The fact that we subject ourselves to values of this kind and therefore consider ourselves capable of determining ourselves, we prove constantly by our thinking and action. Hence we subordinate our life interests to interests that belong to our being subjects; we place them in a different framework; so we take a distance to our life interests, evaluate them and give them a place *within* the interests of our being subjects: 'life' is *integrated* within the sphere of unconditionality, reshaped by higher interests (interests that do not depend on nature or culture). It is this sphere which contains what it means to be a subject: this sphere includes notions such as freedom and freedom of choice for example.

(h) Behaviour does not only has an 'external', 'observable' side, it also, and decisively so where the meaning of behaviour is concerned, has an 'internal' side: a side that pertains to the *grounds* (reasons) of our behaviour, the way we shape our lives. Rational behaviour strictly speaking is nothing but the capability of determining one self like that. The concept of rationality of the RCM does not provide an adequate picture of this.

(2.2) The reflexive argument includes the *necessity* of assuming that man is rational in the sense elaborated above. A rationality of that kind defines the cultural concept of man (= the concept of man as a cultural being):

Life has its demands. Nevertheless in our 'rational' behaviour we always make a *claim* to validity. Behaviour of that kind is so to speak a cultural expression (science, art, politics, religion, etc.): cultural phenomena are validity phenomena. By means of culture man shapes himself. If we shape ourselves, we subject ourselves to a whole of rules that leads our behaviour: we are determined by values – at least we are if we conceive of values as conscious or unconscious determinants of orientation for human behaviour, normative instances for our concern with the world and ourselves. At the same time we are value-determined in such a way, that we claim to transcend our life interests qua life interests (our behaviour sometimes expressly goes against our life interests). As a consequence we determine *ourselves* in such a way that our behaviour obtains a quality that it does not have on the basis of 'life', on the basis of its being determined by life interests or life values: man's determinacy of life is elevated, integrated in its unconditional determination, i.e. in the capability and task that belong to him qua man. Precisely because of this capability and this task man is a 'subject'. As a subject man orients himself on values and leads a value-oriented life. To be

[14] Cf. KRIJNEN (2001, 7.3.1; 2002) for more details.

sure man is also a living being, hence subject to the laws of nature. But since we *claim* to behave in a goal-oriented, planned way, we behave on the basis of values (goals, plans): from this point of view we transcend our natural determinacy (if only to continue our biological existence). Because we attempt to realize *goals*, orient ourselves on *values*, we take a distance to our natural determinacy, and try to do justice to higher interests, interests that have not been predetermined by life (the distance to life would then be lost again): interests that concern the *validity* of our behaviour. Our life finds itself at the service of values, not vice versa: in this way man is a subject. As a subject he orients himself on values.

Being rational creatures humans do not simply 'have preferences': To be sure human behaviour genetically speaking is primarily driven by natural instincts, by the natural pursuit of survival. But even *in* the striving to remain alive there are claims connected to the control and shaping of those natural instincts:[15] survival demands behaviour that abides by certain rules, it demands rule determinacy of human beings: man is subject to *rules* in his survival, particularly if he is after his 'advantage' and tries to lead a life of 'utility'. He does not simply vegetate biologically; such an estimate is rather the result of an *abstraction* that *isolates* one aspect of human life. Our biological existence obtains a stamp of the life world by this regulation. A multiplicity of interests pervades the life world of man: the regulation of those interests is highly differentiated and intensified: our life world very much is a 'rule-bound' world. Even on this level of the life world *man to a large extent shapes himself* (self formation), even if it is just 'utility', 'advantage' or 'normal behaviour' and so on which is at issue here. Utility, advantage, normality and so on are *criteria* for behaviour. Someone who fulfils these criteria will live 'agreeably'. To live agreeably, to have pleasure, to satisfy one's desires (in the economic, hence *sensory* sense) demands immense control over our natural instincts; behaviour that makes life agreeable transcends instinctive actions to a profound degree, since it is concerned with a whole of social rules. – Nevertheless this type of self formation is determined by the interests of *life*, by life interests: *conditional* self formation is what is at stake here. Unconditional self formation, however, is free from life interests of that kind, in the sense that those interests are not determining *grounds* for behaviour; they are not *directly* determining for human behaviour (heteronomy): human behaviour is *self-determined* behaviour, behaviour determined by its own meaning (autonomy). Self-determined behaviour is concerned with its own unconditional possibility

[15] Cf. the debates that are conducted within utilitarianism on the long and short term 'consequences' of behaviour that is determined by the pursuit of pleasure.

and task: behaviour that is not determined by life, but behaviour which is concerned with unconditional validity: with respect to ourselves we behave as creatures that shape their *own* existence, as *independent* creatures. Because of this self formation, which is in an eminent sense determined by ideas, we move our life interests to a secondary plane. The satisfaction of life interests is a goal of our behaviour, but it is not its *final goal* – its final goal is our self formation qua value-determined (idea-determined) behaviour, to be more exact: qua determinacy by values which are defining moments of our being subjects: in that case we ourselves in a strict sense determine our own behaviour, and life as a natural phenomenon has been subordinated to the possibility and task of unconditional self formation.[16]

Only because of a structure of this kind are we capable of conceiving of human behaviour as *accountable* behaviour, not lastly where the result of behaviour hence its validity evaluation is concerned: is our behaviour valid or invalid? Reflection is a part of human behaviour: Behaviour is behaviour in a particular situation on the basis of rules (maxims, values, ideas, etc.). Rules of this kind themselves are evaluated too (accepted, rejected). A rule is valid if it is a specification of an unconditional task (and therefore has a place within the spectrum of the value sphere concerned), if it is part of the determinations that define or determine being a subject itself (and are therefore independent of any particular situation). In this way we behave as subjects, in this way we are free and accountable for our actions.

Human behaviour is concerned with validity, but it is also validity-different; that is why it is part of our behaviour that we *want to be sure* that our behaviour is valid. We do not just exhibit behaviour, but we claim that our behaviour is *valid* (this holds for any value whatever – qua orientation determinant – which determines that validity: utility, pleasure, beauty, truth, and so on). In our behaviour we are concerned with values; moreover we evaluate the validity content our behaviour has. In so doing:

1. We do not just commit ourselves to a criterion ('utility' for instance) through our concern with value. – In the language of the RCM: our behaviour is not just instinctive or vegetative acting but it is 'rational' (utility-maximizing).
2. We moreover want to know if our behaviour fulfils the criterion (whether our behaviour is 'useful'). – In the language of the RCM: is our behaviour 'rational' (utility maximizing)?

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[16] KOSLOWSKI (1998) also reaches the conclusion that the economic theory cannot be a universal social theory. In his argument, however, the validity-reflexive argument that is elaborated here does not play a significant role.

3. We even wonder whether this criterion is a valid criterion for our behaviour (is 'utility' a valid criterion?). – In the language of the RCM: is the concept of 'rationality' (utility maximizing) a valid one?

All of this is part of human behaviour, because it is part of the *concept* of human behaviour (this concept also includes theoretical validity-reflection: is our *knowledge* of the validity of that criterion valid?). The rationality of human behaviour is essentially more complex than the RCM suggests.[17] The dream of the RCM as a *universal* theory of human behaviour ought to have been done with a long time ago.[18]

On this point the critics are right. However, it is also of importance to see through the complexity of human behaviour, particularly through the reflexive structure of this behaviour; for only through that do we obtain a *foundation* for our talk of 'values', 'commitment', 'agency', etc. On the basis of the above argument we come to the following classification:

1. Preferences in the economic sense are 'goods' ('objects', 'objects of choice').[19]
2. These goods are not desired for their own sakes: they are part of a *structure of rules* that is normative for the acting subject.
   a. This setting of a norm in the first instance is normative on the basis of *life values*.
   b. Life values, however, only have meaning within the framework of autonomous values ('ideal values', 'unconditional values'): values whose validity is not based on something else ('life'), but which are valid *in themselves:* Man as a subject autonomously subjects himself to those values: not for reasons that are directly determined by

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17 A profound philosophical analysis comes to a result that is the diametrical opposite of XENOS's (1989, p. 78); since according to Xenos economic rationality is "potentially independent of value rationality altogether" it does not stand in need of "value rationality". This conception of economic rationality in particular turns out to be an abstraction.

18 With a view to the simplistic conception of human behaviour that the RCM espouses, it is unsurprising that according to a number of critics the RCM nolens volens gives up one of its assumptions, namely the idea of choice, and lands itself in a determinism (MANSTETTEN 2000, pp. 100 ff.; MCKENZIE 1983, pp. 28 ff., and so on). In so doing economics becomes a kind of physics of human behaviour, in the form of a Skinnerian behaviourism for example. Preferences are given; there is no room for choice: man is completely determined by his natural and cultural situation; he only calculates the action, he is only instrumentally rational, that is to say, strictly he is not at all rational, since that kind of instrumentality is an *isolating abstraction* of rationality.

19 On this point cf. III.2.1.

> the interests of life, but for reasons that are determined by his *subjectity*. Autonomous values, then, *directly* determine man as a subject; the interests of life are not pushed aside, they are integrated in this autonomous framework, hence they are *reshaped*.

To this extent, the concept of *self-interest*, which is of such great significance to the RCM, is a striking concept – if the concept is not limited to its sensory aspect, but takes seriously the ideal aspect of human behaviour: scientists – such as Robbins (1935, pp. 12f.) or Becker – who only conceive of man as a being determined by instincts or drives that operates rationally (calculating in the economic sense), do not have an *inclusive* conception of human behaviour: human behaviour is essentially determined by values, it essentially has an ideal nature.[20]

3. Application of the RCM to Itself

According to the above analysis human behaviour does not just consist of life-oriented calculations of utility; rather a calculation of that kind is always embedded in a process of reflection that founds that calculation: the calculation of utility is reshaped by autonomous values and in so reshaping it, it is connected to another dimension of meaning. If that is so – then this is true as well for the behaviour of the *RCM theoretician*. It follows that qua *universal* theory of action the RCM must be capable of making plausible the behaviour of its theoreticians in terms of the RCM. Does it succeed?

By his behaviour the theoretician of the RCM produces a theory 'RCM'. Without him there would be no such theory. Why did scientists who defend the RCM choose this theory? What utility, what pleasure or sensory need do they satisfy by this choice? Money, status? Or do they choose the RCM as *scientists*, because they are convinced of the *truth* of the RCM? Do they reject alternative theories (such as the one proposed here), because this theory makes them uneasy, or because this alternative theory is *false?* Does it follow that, as scientists, they are *directly* concerned with the truth: does truth function as an orientation determinant for their behaviour? Don't they examine their behaviour (and the behaviour of competing scientists) with a view to the *value* of truth (since values are orientation determinants for human behaviour)? Why should the opponents of the RCM be convinced by

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[20] On this topic cf. my criticism of explanatory conceptions of human behaviour founded in biology (1999a; 1999b; 2001, 6.3.3.2). – On the significance of man's animalistic nature for economic science cf. the analyses by LEVINE (1976).

the adherents of the RCM? Because it pleases the adherents of the RCM or because it is advantageous to their career? Or because they are convinced of the *validity* of the RCM? Is it agreeable to be refuted? Is that fact relevant with respect to *choosing* a theory? Shouldn't a theory be chosen on *other grounds:* grounds of theoretic validity, of truth?

The preference for a theory is by no means *given:* that preference is the result of a *process of appropriation aimed at validity*, a 'founded' conviction. That is why that preference is embedded in an entire net of validity grounds and is evaluated within that framework; for scientific knowledge claims to be founded knowledge that is supported by reasons:[21] it is knowledge on the basis of values, on closer inspection: it is knowledge on the basis of a whole of values that we may call 'truth'. Because of *its own* claim to validity the theoretician of the RCM is concerned with that whole of values. The RCM certainly does not claim to be an instinctive reaction or a dogmatic thesis, it claims to be a scientific theory.

But if the RCM is not even able to give a sufficient explanation of the behaviour that makes up its own theory formation – then how can it be a *universal* theory of human behaviour? Having said this let's move on to the second point of my criticism!

III. Quantifying Preferences and Their Quality

(1) Within the neo-classical view of human behaviour 'utility', 'improving one's lot' and so on, just like the notion of 'self-interest', are conceived of *empirically* (i.e. as being sensory in nature). Moreover within the neo-classical view goals get a quantitative determination. Because 'utility' is conceived of quantitatively, the calculation of utility in the neo-classical sense is possible: the quantifiability of utility is one of the necessary conditions of neo-classical economics. Is utility quantifiable *qua goal of human behaviour?*

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[21] So it is not even necessary to follow BIERVERT/WIELAND (1990, p. 22) in citing controversial criteria of demarcation, such as Popper's criterion of falsification, and then point out that the economic approach to rational behaviour has a "totalisierte Unfähigkeit zum Irrtum". For in elaborating the reflexive argument it has become clear that the economic approach certainly is falsifiable and not at all "logically speaking immune". From the point of view of formal logic that approach is incapable of explaining the axioms of its model in terms of the model itself. From this point of view too – the choice of the axioms – the model founders qua universal theory of action.

As mentioned already, 'rationality' is often associated with the human capability of calculating. Particularly in the empiricist tradition of philosophy – the tradition utilitarianism belongs to – such an operational concept of rationality is definitive. Rationality, reason and so on obtain an algorithmic character. However, the philosophical tradition also knows a more inclusive meaning of rationality. In that case rationality stands for the justificatory capabilities of the subject: subjects are able to justify (found) their opinions, beliefs, actions and so on. From this point of view ratio concerns every 'goal-oriented', 'planned', 'considered' activity of man: it is an activity based on grounds (and those grounds *may be* grounds that have to do with calculation and economic utility, but they may also be other grounds).

From a utilitarian point of view human behaviour deteriorates into a kind of arithmetic, into a rational process of calculation, as Bentham paradigmatically and influentially showed with his hedonistic calculus. This calculus turns out to be connected to a multiplicity of problems, problems that have also determined the development of utilitarianism.[22]

These problems include the problem of the *calculation of utility*. It is a problem that has been much discussed, particularly within the economic sciences. Even if the RCM does not directly aim for the maximum utility 'for everyone', but rather for the maximum utility for the individual – the problems of calculation are analogous. With a view to the following it is of importance that these problems cannot be exhaustively discussed within the framework of the questions that are characteristic of the discourse: the question as to the comparability of goods/preferences (material vs. immaterial), or of subjects (intra- and inter-personal comparisons of utility), the question about the cardinal or just the ordinal measurability of utility, the question about the objective validity of the unit of measurement used, and so on. Why not? In the proposed solutions, insofar as they are relevant to the RCM, it is tacitly presupposed, *that preferences qua goals of human behaviour are quantifiable*

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[22] For example cf.: GOODIN (1991); HÖFFE (1979, pp. 120ff.; 1992); SNOEYENBOS/ HUMBER (1999); WAGNER (1992, §§ 13ff.). – However, it is typical of the self-understanding of the adherents that the approach of utilitarianism is fundamentally 'all right' and its problems only of a technical nature. Snoeyenbos and Humber for instance provide an instructive survey of the measuring problems of utilitarianism; their analyses time and again show up the aporetic character of the utilitarian attempts; it is therefore highly surprising that they hold utilitarianism to be an adequate foundation of the explanation of human behaviour, without giving so much as the beginnings of a possible solution! Such estimates have little to do with science, but all the more with religious beliefs.

(regardless of whether it concerns cardinal or ordinal measurability);[23] that is to say, that an object of behaviour qua orientation determinant ('goal', 'value', 'interest') has quantity. Without this presupposition there is no calculation of utility, without the calculation of utility there is no RCM, at least not as a 'universal' or 'foundational' explanation of human behaviour. Is it a valid presupposition?

In what follows it will turn out that it is once again a manifestation of the RCM's *deficient reflexivity*, that quantitative determinacy is ascribed to preferences qua goals of action. This ascription is unsurprising, since the RCM is intrinsically related to axiomatic thinking. Hence its own assumptions, the 'axioms', are only presupposed: *within the framework* of the model the validity and determinacy of its fundamental concepts remain assumptions which cannot be justified. From this point of view the model is a variant on the influential 'euclidean', deductive-axiomatic rationality: In this type of rationality there is basic knowledge that need not be proved, but which is evidently valid: such knowledge is unproblematically taken up as a starting point, and it functions as a foundation for all other knowledge; the latter is gained from the former by a linear process of proof.[24] For the calculus of the RCM this means that the RCM does not just presuppose general-logical meanings (and logical operations), but presupposes the same for the specific meanings that make that calculus into the one of the RCM. The presuppositions of the RCM itself, qua *universal theory of behaviour*, remain at least unclear; they are beliefs that are not perspicuous, and insufficiently determined in respect of their validity, not to say dogmas (think of fundamental concepts such as 'behaviour', 'choice', 'utility', 'preference', and so on). Due to its axiomatic starting points the RCM deprives the 'theoretical behaviour' we call knowledge of its dimension of ground and foundation of validity.

(2.1) To elucidate the non-quantitative character of preferences qua goals of action, I will by way of introduction first discuss an analogous problem within the history of epistemology, namely the problem of the validity of knowledge, to be more precise: of the attempt to understand the validity of

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[23] I neither agree with MANSTETTEN (2000, p. 74) to the extent that the ordinal determination of utility is not of a quantitative nature, nor that the concept of 'utility' loses it quantitative determination in a framework of preference theory (preferences in Robbins's sense or revealed preferences in Samuelson's sense) (p. 76). The quantitative determination of utility is only modified. This modification, however, entails specific problems pertaining to the possibilities of calculation.

[24] On the fundamental problems of founding this type of rationality, cf. KRIJNEN (2008, pp. 14ff.).

knowledge quantitatively: in degrees of the (un)clarity of the image of an object'. As opposed to that truth turns out not to have gradations (Kant), not to admit of more or less (Frege). Truth is not determined quantitatively: To be sure, there is more than one true statement, but this quantity is irrelevant to the truth of those statements (a true statement, so to speak, is valid only once). The truth of this or that statement rather is a matter of quality ('what'): there is no quantitative hence relative difference between truth and falsehood (more, less), but an absolute difference: something is either true or false (or partially true, or partially false, but again without gradations).[25]

It is not hard to see that the quantitative conception of truth derives from sensory experience, or from physics: as hot/cold consist of a greater/ lesser amount of molecular movement, so knowledge consists of a greater or a lesser amount of truth. Knowledge, however, is not a natural phenomenon, it is a *phenomenon of meaning:* true and false knowledge are both phenomena of meaning, and they are so to the same degree. The difference between them is not a difference of greater or lesser meaning. Here we do not have a sensory (physical or psychological) substrate, that would have greater presence in the case of truth, and lesser presence in the case of falsehood. The difference between true and false knowledge rather is the adequate or inadequate shaping of our theoretical representations according to the principles, criteria, values, grounds of (valid) knowledge. – This holds in the case of our behaviour as well!

Being a 'rational activity' human behaviour is not just a natural process, but it is also concerned with a whole of 'ideas', 'rules', 'maxims', 'concepts', 'goals', and so on. Hence behaviour is concerned with validity. Since we have called the orientation determinants of human behaviour 'values', we can also say that: human behaviour is necessarily *concerned with values*. Only because of the subject's concern with values it is possible to speak of an object that is 'wanted' or 'preferred' (in the economic sense). Such an object is itself something that, in respect of being a goal or a preference of action, is related to a value. 'Nature' and 'value' come together in the preferred object. Through their connection a meaningful reality comes about: a true proposition, the cultural institute that is science as the (purported) set of such propositions, love and friendship, economic organizations, states and governments, works of art and religions, and so on – in a word: everything we know as *culture,* as cultural reality. Even subjects of action

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[25] That the truth of statements may also be thought about in terms of probability, changes nothing, to the extent that then too the distinction made applies; for the probability of a statement is not itself probable, or else there is the threat of an asymptote tending to 0, which is to say that nothing is being said.

pursuing maximum utility, create culture in the above sense of culture (nature concerned with values and related to values). For 'utility' determines their behaviour: their 'chosen actions' are concerned with the goal or the value 'utility'. Through this concern with values they create a meaningful reality, in this case a world constituted, i.e. determined in its objectivity, by the value of 'utility'. It is a world that consists of goods in the sense of 'cultural goods'. Preferences in the sense of the RCM and neo-classical economics are goods of this kind:[26] objects that are preferred, hence objects that are concerned with value and therefore value-laden – *as* preferred objects they are never merely natural objects.

(2.2) With the help of this rudimentary insight into human behaviour we are able to examine critically the quantifying aspect of the RCM, to the extent that the RCM claims to offer a *universal* theory of behaviour:

Because the value (the 'goal') constitutes the good or the preference (in the economic sense), this value – unlike what happens in the RCM – cannot function in the plural: The value, the orientation determinant of our behaviour, only exists in the singular (where 'singular' must not be understood in the quantitative sense). It is only because goods, of which there are many in the quantitative sense (so numerical ordering, calculation is possible), are constituted by a value, only because objects have meaning *as* preferences, *as* desired or intended objects through a value, that they *are* goods or preferences (in the economic sense). If, in our behaviour, we are concerned with the One value, we create a world consisting of goods, we create culture. We shape this world through the value that directs our behaviour. There are goods only on the basis of this concern with values, only on the basis of values can there be a multiplicity of goods, and are we able to count goods. To put it classically and in the context of practical philosophy: only because *the* Good is the goal of all behaviour, are there goods at all. Without *the* Good, there are no goods; the Good is the condition of the possibility of goods, it is the principle, that is to say moment of the concept of their validity, hence of their determination (if it is not *valid* that a is, then a *is* not).

This unity of the ground of goods – not of preference as one of the goods, but as a goal/value/point of orientation for behaviour – is unique in the non-quantitative meaning of the word: for *conceptual* reasons there is no multiplicity of that unity, for as a multiplicity of that unity, that multiplicity

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[26] For example, cf. PERLOFF (2001, p. 75) to whom white or black underwear are examples of "tastes or preferences". MCKENZIE/TULLOCK (1978, pp. 8ff.) mention "desires" and "values" such as "beer", "pretzels", but also "immaterial" objects, such as reading Shakespeare or attending church.

would have to be constituted by that unity. From this point of view we are not dealing with a multiplicity of grounds of behaviour, but with a unique ground that *makes itself concrete*, so that a multiplicity of concreta that are constituted by that ground, comes about: goods. Just like there are many truths, but every truth is valid only once, there are many good actions that are good only once, many beautiful products (works of art) which are beautiful only once: they are concreta, concretizations, goods of the One True, Beautiful and Good: *qua* truth, *qua* good, *qua* beautiful those goods are validity- or determinacy-functionally dependent on them.

Preferences qua values, then, are not countable (generally speaking: numerically determinable). Numerical unity and multiplicity have the structure of a series of units that are exactly demarcated (delimited) one from the other. Such a structure apparently is not what we are dealing with on the level of value as principle. Strictly speaking we aren't dealing with such a structure either on the level of *goods*, for goods are characterized by their concern with values. If we ignore that concern with values, and only conceive of goods quantitatively, then we deny their value-determinacy – which, however, is defining of the good as good: we abstract from a moment that determines goods as such. Through this isolating abstraction, it is true, we would have quantitative entities at our disposal, but oddly enough we would not have goods, for they are determined by value. Value determinacy is validity determinacy, and validity determinacy is of a qualitative nature: true/false, good/bad, beautiful/ugly, efficient/inefficient, and so on. Such value-determined alternatives are by no means merely 'given preferences'.

Preferences qua goods cannot be a coincidental, rule-free or natural ragbag of something that is originally without relations: Preferences are what they are always and only because of their value determinacy, within the framework of a 'meaningful coherence'. Whereas the RCM because of its methodological orientation on mechanistic physics conceives of preferences/goods as isolated elements, hence conceptually making them into numerically manipulable quantities, preferences/goods as such aren't 'atoms', but value-determined entities, phenomena of meaning, hence integrated in a structure of value and the meaning constituted by it.[27] The assumption of their not

[27] From a Heideggerian point of view BRODBECK has said this as follows: possibilities for action are no "Zustände in einem logisch starren Raum", but they are "Interpretationen" (2000, p. 12), "Einzelereignisse" only exist on the basis of a "Weltmodell" (p. 16); in the social sciences in particular we do not have a "jüngfraulichen Stoff des empirischen Materials", we only have interpretations (p. 31 and onwards). This interpretationism – which is currently

being concerned with values, the assumption of something that exists in isolation in and for the calculation, on the contrary precisely is the condition of possibility for their calculation. However, *this assumption is itself a concern with values* that constitutes a meaningful coherence, namely the utility calculation of the RCM. That calculation is possibly only *on the basis* of meaning and value. It follows that the RCM can neither offer a 'universal theory of behaviour', nor the foundations of such a theory: the concern of behaviour and its object with meaning and value remains unconsidered for methodological reasons.[28]

This way it becomes clear that human behaviour cannot be reduced to natural determinates, for it has a value-referential character, or in the language of the theory of consciousness an 'intentional' character. Preferences are not 'masses', their identity is not a 'substance', etc. 'Great' thoughts and 'great' deeds are by no means extremely extended (sometimes a great action is even the ommision of an action), but actions or thoughts which are to a remarkable extent concerned with value, are 'valuable'; actions do not 'follow' like a natural effect follows a natural cause; and someone who thinks that being 'quick on the uptake' is just a temporal neural process, has neglected the concern our thinking has with the value of 'truth' (someone who quickly says the wrong things, isn't quick on the uptake: 'quick' here is a 'value concept', not a 'natural concept'). Human behaviour can be understood as a concretization of a value; hence a science that wants to determine human behaviour *universally,* does not possess any concept of 'atomic ultimate units': preferences/goods are not stable 'givens', phenomena of value aren't atoms, they are value-determined, hence value-functionally structured. By appealing to this structure behaviour is explained, not by means of a calculus

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better known as social constructivism – can, however, not cover everything, for it is delimited by the objective structure of meaning (for a view that is critical of Heidegger's, cf. KRIJNEN 2001, 6.3.3.3.2; 2004).

[28] Value determinacy cannot be quantified, but can be 'operationalized'. By this means value concepts are reduced to indicators, to be more precise: to sensory indicators. This may be a legitimate process within the framework of a particular interest of knowledge. However, this operationalization becomes problematic as soon as indicators are thought to be the matter itself – cf. the RCM in the shape of a universal theory of action. To the extent that the object of economics may be presented as an 'order', that object certainly is mathematicizable, but mathematics is not constitutive for the object of economics (this is another matter where physics is concerned). By mathematizing the object, economics subjects it to an approach that is independent of its special nature as an economic object, and thematizes it solely with a view to the notion of an 'ordering'.

that has a structure analogous to the one natural laws have.[29] Validity constellations *as* validity constellations are neither determined temporally, nor spatially; so they have no numerical determinacy; *as* validity constellations they are value-determined.

Economic imperialism wants to offer a *universal* theory of action or a basis for it. That has turned out to be an invalid pretention. What, then, does the RCM explain? *Aspects* of human behaviour, and not even the basic ones. Especially according to neo-classical economics human beings must choose. Choice, however, involves a relation to values (regardless which values they are, the value of 'utility' for example). Someone who is not willing to give up the idea of the freedom of choice, is involved with values; someone who does give up the idea of freedom of choice, is unable to explain anything at all, not even the validity of his own theory. By means of the isolating abstraction of the RCM we do not gain any scientific insight into the foundations of human behaviour: we need a different theory of rationality.

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[29] For criticism with respect to the limits of quantifiability from a consciousness-theoretical point of view cf. DÜSING (2005, pp. 114ff.) on the conclusions that have been drawn on the basis of Libet's experiments. Düsing's criticism is relevant to the above argument in the sense that the temporality of decision processes makes it impossible to fix the time of a 'decision' exactly. Similar arguments may be found in the work of Husserl or Hönigswald. For a critical look at the concept of time in neo-classical economics, cf. GEORGESCU-ROEGEN (1976) or BRODBECK (2005).

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Chapter 6

Business Engagement, Mental Models, and Philosophy in the Globalized World

CHRISTOPH LUETGE

I. Introduction: Order in the Globalized World?

In 1795, Immanuel Kant published his famous treatise on a "Perpetual Peace"[1]. In this book, Kant envisaged a federation of independent states as the ultimate aim in the field of politics. This federation was, in Kant's eyes, the best means to secure prosperity and peace in the world. Kant did neither believe a "world state" would be the most desired institutional framework, nor did he believe that the individuals, the world citizens, would be able to conduct their affairs without government institutions at all. A federation seemed appropriate as a theoretical middle course, and the question is whether we have in principle advanced from this theoretical position at all.

[1] KANT (1976), vol. 11, pp. 191ff.

P. Koslowski (ed.), *Elements of a Philosophy of Management and Organization*, Studies in Economic Ethics and Philosophy, DOI 10.1007/978-3-642-11140-2_6,

Today, some philosophers have gone beyond Kant: Some think that a world state is the inevitable means that must eventually be achieved to bring order and peace to the globalized world.[2] This view amounts to an extension of the old 'national state' paradigm to the global situation: We would need a global courts system, global police, and so on. Needless to say, it is difficult to envisage a situation in which such a world state would have a reasonable chance to be put into operation.

However, this is not the only theoretical alternative. Since globalization has gained momentum, we perceive another development that occurs next to, and sometimes in spite of, national legal frameworks. Global corporations are beginning to take on a political role that goes far beyond their traditional self-understanding. They are investing in educational programs, engaging in the fight against discrimination and corruption and much more. However, this engagement does not always meet with wide acceptance.

II. Mental Models Matter: Some Empirical Figures

According to a survey of the Association of German Banks (Bundesverband Deutscher Banken 2005), the German public has a rather critical image of the engagement of corporations in matters of Corporate Social Responsibility (CSR): Although this engagement has increased significantly in recent years, this is not being recognized by the public. Rather, 60 per cent of the German people believe that only few corporations are doing more than promoting their own interests and engaging in social affairs – 7 per cent even believe that there are no corporations that do likewise. So in total, in the eyes of more than two thirds of the people, corporations are not doing enough in this regard.

Moreover, more than half of the people (51 per cent) think that the engagement of corporations has decreased during the last years. Only 11 per cent believe it has increased. Clearly, the public image is not in line with what is the case: According to a survey by the Forsa Institute conducted in the same year (2005), only 12 per cent of the entrepreneurs interviewed have decreased their CSR activities during the last years.[3]

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2 Cf. HÖFFE (1999).

3 24 per cent have increased their activities, while 64 per cent have not made any changes. This study has been one of the largest studies on CSR in Germany. Cf. http://www.insm.de/campaigns/cooperations/forsa/csr/.

Thirdly, apart from public opinion on CSR activities, there is a more general tendency visible: While most activities of corporations are not viewed as morally problematic per se, they are however not viewed as morally desirable either. In particular, while 58 per cent regard large profits of corporations as morally acceptable in principle (37 per cent say large profits are morally unacceptable), 75 per cent equally say that these large profits do not benefit the society as a whole.

This is a view not just limited to Germany, but widely held in many parts of the world. While people do not subscribe to blatant anti-capitalist positions anymore, the activities of corporations, in particular, large company profits, are still widely regarded as morally neutral. Profits are believed to benefit only the corporations, but not larger parts of society.[4]

What is the relevance of these findings? The most important point is that mental models matter in economics. Business, but equally its political and constitutional framework, is influenced by the concepts and theories, the "mental models" (cf. Denzau/North 1994) that people have about economics. For example, a widespread mental model concerning society is that of a zero-sum society, i.e., a society in which people can gain only at the expense of others. Political processes, in particular, institutional changes, invariably create losers, in this picture. So why should these presumed losers consent to such changes? Rather, they will engage in blocking, or at least in slowing down the changes. A different mental model, according to which modern societies play positive sum games, would help in this case.

A widespread mental model concerning politics is that politics is purely about balancing powers and that democracy must be understood as the rule of the majority. This model equally leads to an inadequate and hindering concept of 'losers' in the struggle for power, with the result that those who perceive themselves as (likely) losers will aim at blocking the entire political process. A more adequate and mutually beneficial mental model famously considered democracy as 'government of the people, by the people, for the people'. This implies looking for win-win situations and taking into account minorities.

More important to the case at hand is another example: If the dominant mental model concerning private property – and this seems to be one of the findings of the survey cited – is that this property allows the owners to appropriate its profits, then an important point is overlooked: that private property is justified by the benefits it yields for others. It was the classic

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[4] Cf., e.g., books like CHOSSUDOVSKY (2003), FORRESTER (1999) or the writings of A. ROY.

idea of Adam Smith that private property is not only more efficient, but more ethical than public ownership. This idea is in danger of getting lost.

These examples show that mental models can hinder or block a society, yet they can also be beneficial. But they need to be worked on. It is not enough to rely on an intuitive understanding of economics, market and competition, and of the role of business in the globalized world. Rather, a theoretical understanding of the philosophical, the normative foundations of business ethics is needed.

III. Philosophers on Normative Mental Models

In the field of business ethics, three main approaches to normative ideas can be made out. These three result from different philosophical schools: virtue ethics, discourse ethics and pragmatism (understood in a broad sense). While the first two propagate a rather strong view of normativity, the third one, by contrast, weakens normativity considerably. These approaches will be discussed in turn, before presenting an alternative view in section IV.

1. Strong Normativity I: Virtue Ethics

According to one of the major proponents of virtue ethics[5], P. Foot, the concept of 'human nature' is the most important concept in moral philosophy.[6] Some constants in human nature are central for social life and ethics, and this is the case even in modernity: Ethics in modern societies must be built on such constants as freedom, home, family, love and respect (cf. Foot 1997, pp. 40ff.). These concepts stand for a "natural normativity" (Foot 2001), which is supposed to stem from a certain objective, mostly unchangeable idea of human nature. Human beings simply need a certain quota of freedom, home, family, love and respect. They are not egoists – and this is the basis for a virtue ethics: If individuals orient their life according to moral virtues (and these should, according to Foot, still be the classic cardinal virtues braveness, temperance, prudence and justice), they attain a state in

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5 Cf. also FOOT (1978), the classic works of WRIGHT (1963) and GEACH (1977) as well as NUSSBAUM (1988) on Aristotelian virtue ethics. An overview is given in SWANTON (2003).

6 Cf. FOOT (1997), p. 41.

which they are eventually also 'bestowed' with freedom, happiness, love and so on.

There are – at least – two important consequences resulting from this position:

1) Foot concludes that free riders in a prisoners' dilemma (PD)[7] are 'deranged' personalities (cf. Foot 1997, p. 239), which can only be interpreted in the sense that they follow merely their short-term, not their long-term interests. Of course, in a PD situation, actors would be better off by cooperating – but the incentives of the situation rule cooperation out. So it is rather the situation, or the situational incentives, that must be blamed, but not the actors themselves. The actors cannot escape the PD situation on their own; this can only be achieved by sanctions that change the incentives for all actors at the same time. However, such sanctions, and institutions form which sanctions emanate, are not taken into consideration within the virtue ethics approach. Rather, it seems that this approach still relies on informal sanctioning in face-to-face contexts.

2) From an economic point of view, it is problematic to rely on such a 'rigid' concept of human nature, as this neglects the characteristics of interactions between actors. In particular, conflicts are ignored, in which virtues, however strongly people believe in them, cannot help. Virtue ethics apparently assumes that actors can act against incentives. But those who try to stick to their virtues while others, less 'moral' ones do not, will be exploited in situations like the PD. Again, Foot overlooks the conditions of modern pluralistic societies, where virtues are not shared universally and where the implementation of norms via face-to-face-sanctions is no longer viable.

That is not to say that virtues cannot play a role in the modern society at all. There are situations in which virtues can act as a heuristics: If property rights are not sufficiently specified, if the institutional framework is lacking or missing at all, individuals must look for new ideas how, i.e., in which directions to further develop the framework. Virtues can provide 'food for thought' – however, these virtues do not necessarily have to be the classic cardinal virtues. Rather, the virtue approach could in general be helpful in demanding a balanced moral judgment, in which no element is being overrated. In this way, the virtue ethics approach could be fruitful especially in local contexts of application.

This can be seen in the contributions of its main proponent in the field of business ethics, R. Solomon (1992): Solomon's approach relies mostly on

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[7] BINMORE (1994; 1998) and HOMANN (2002) both assign the PD a central role in their ethical or ethically relevant approaches.

trying to apply Aristotelian virtues to ethical issues in business. Some cases seem quite well analyzed. But apart from local issues, virtues are not enough to approach business ethics of today – as becomes very clear, for example, in his discussions of Aristotelian virtues role identity and integrity: these cannot be fulfilled by the individual without changes in the incentive structure present in a company. Even if one regards the concept of virtue as fruitful for business ethics, the Aristotelian approach lacks systematicity: without at least a minimal theoretical foundation, the criteria for when to apply which virtues seem quite arbitrary. And the reason can be found in the main mental model of virtue ethics: A view of human nature cannot provide a key to ethical issues in modern societies.

2. Strong Normativity II: Kantian Tradition

Unlike the Aristotelian approach, conceptions of ethics referring to the philosophy of I. Kant cannot be accused of lacking systematicity. In the field of business ethics, the discourse approach has been made prominent by authors like H. Steinmann, P. Ulrich and A. Scherer.[8]

One aspect that is particularly relevant to the question at hand: In other approaches, incentives are central. In particular, in an economic approach rationality means following self-interest along the incentives set by the situation. If changes in behavior are desired, then the conditions of the situation, the incentives, have to be changed. However, in discourse ethics, ethics ultimately may demand forgetting about all one's own interests ("*Abbruch aller meiner Neigungen*"[9]), it may demand acting against incentives. In this picture, incentives are not a constituting element of morality. The classic example of Kant is the merchant who does not cheat on his transient customers only out of respect for his reputation with his regular customers: This merchant is not considered a moral person.[10]

A fundamental concept in this approach is the concept of rational motivation, which plays a central role in the original discourse-theoretical conception of J. Habermas. When arguing for the importance of discourses as grounds for normative theory, Habermas makes one fundamental assumption: The participants of a discourse must – at least partially – be motivated by a rational motivation.[11] Rational motivation guides what Habermas terms

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8 Cf. STEINMANN/SCHERER (1998), ULRICH (2002) and SCHERER ET AL. (2006).

9 KANT (1976), vol. 7, p. 27 (*Grundlegung zur Metaphysik der Sitten*, BA 14).

10 Cf. KANT (1910ff.) Bd. 4, p. 397 (BA 9).

11 Cf. HABERMAS (1981), vol. 1, p. 50 and p. 54; HABERMAS (1983/1999), p. 68 and p. 119; HABERMAS (1992), p. 19.

communicative action. While strategic action ("*strategisches Handeln*") is affected by incentives and sanctions, communicative action ("*kommunikatives Handeln*") is not, at least not entirely (cf. Habermas 1983/1999, p. 68).

It is not easy to find a concise explication for the concept of rational motivation in Habermas' writings. In the "Theory of Communicative Action" (Habermas 1981), the existence of rational motivation is simply postulated,[12] while Habermas (1981, vol. 1, 50, fn. 42) even admits that this concept has not yet been analyzed satisfactorily. In "Diskursethik: Notizen zu einem Begründungsprogramm" (Habermas 1983/1999), the justification given relies on the illocutionary effects of a speech act (cf. Habermas 1983/ 1999, p. 68): Speech acts are supposed to be able to make actors perform certain actions and refrain from others, in order to escape committing a performative contradiction.[13] According to Habermas, a rationally motivated actor is led by the desire to avoid a performative contradiction.

Habermas himself recognizes the ensuing problem of justifying the binding force of a speech act. He therefore invents a dialogue with a fictitious sceptic who doubts exactly this binding force. Habermas responds that the sceptic may well hold on to his position, but cannot act from it, as he is invariably bound by the requirements of the "Lebenswelt": Lebenswelt – according to Habermas – is formed by cultural tradition and socialization which in turn work through rational motivation. Those trying to escape from it would end in "schizophrenia and suicide" (Habermas 1983/1999, p. 112; my translation).

The problem of the sceptic is taken on again in Habermas (1991). Here, Habermas at first seems to weaken the power of rational motivation by attributing to moral norms only "the weak motivating power of good reasons" (Habermas 1991, p. 135; my translation). He goes as far as stating that "the validity of moral norms is subject to the condition that they are observed as the basis of a general practice" (Habermas 1991, p. 136; my translation). This implies that individuals might be allowed to behave 'immorally' when faced with possible exploitation by others, as would be the case in prisoners' dilemma situations. However, it soon becomes clear that Habermas does not consider this a problem of ethics, but a problem of law: Only within the discourse of law, some norms might be valid but yet not reasonable ("*zumutbar*") because of their lack of general acceptance.

Habermas therefore develops a conception of philosophy of law that is to give a systematic account of institutions, which were rather neglected in his earlier work. However, in "Between Facts and Norms" (Habermas 1992),

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12 HABERMAS (1981), vol. 1, p. 54; cf. also HABERMAS (1981), vol. 1, p. 70.

13 For further explication, cf. HABERMAS (1983/1999), pp. 100f.

it again becomes clear that Habermas does not trust sanctions and incentives to govern modern societies alone. Rather, the citizens must still have certain characteristics: Besides legal rules, they also have to recognize normative claims resulting from idealized discourse assumptions. Habermas still assumes a "coordination of plans of actions" (Habermas 1992, p. 34) by language – which requires the existence of rational motivation working via speech acts. Thus Habermas leaves his main claims intact in his later work.

But can rational motivation remain stable in view of opposing incentives? One important part of the problem is how to reconstruct the Lebenswelt. There are alternative, and less harmonious, reconstructions of the Lebenswelt possible, in which the binding force of speech acts is much weaker. One major example is the game-theoretic approach that reconstructs all human interactions as being 'riddled' with dilemma situations like the prisoners' dilemma.[14] These situations can be either manifest (as in open market interactions with competition being obvious) or hidden. Hidden PD situations have been overcome by rules and institutions. They are hidden in all the institutions, like police and jurisdiction, that come into effect as a consequence of the social contract which enables the actors to escape from the natural state – which in itself can be reconstructed as a PD situation. In a phenomenalistic perspective, i.e., one that does not look beyond the surface, it seems as if the individuals complying with these rules are moved by a rational motivation. However, the 'deeper' structures are neglected here: It is not just rational motivation, but rather formal and informal incentives or sanctions that stabilize these rules (cf. section IV).

So, in particular, it is not helpful to sharply distinguish between rational and other types of motivation. The ultimate ideals of discourse ethics, the solidarity of all human beings, consensus as a criterion, are not in doubt. But what is in doubt are the means to reach these ends: Can communicative orientations indeed promote the ethical ideals best? Is this done in the best way by demonstrating performative self-contradictions?

Certainly, the Habermasian approaches in the field business ethics do not rely only on these considerations. The relative autonomy of the economic subsystem, which cannot be governed directly by moral norms, seems to have – at least partially – been accepted. But the strong normative mental model is still present,[15] and it is not clear to me whether it is fruitful for today. A modern ethics must be able both to reconstruct 'reason' as calculation of benefits and 'performative self-contradiction' as a cost factor – however, this does not seem to be the intention of any author in discourse ethics. Even the

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[14] Cf., for example, BINMORE (1994 and 1998), and HOMANN/LUETGE (2005).

[15] Cf., e.g., SCHERER ET AL. (2006), pp. 514ff.

procedural moral principle of discourse ethics can be reconstructed in an 'economic' way: It would be quite productive in modern societies to assign basic equal rights to all people and to search for peaceful resolution of conflicts. The conception of order ethics does not simply postulate these ideals, but justifies them with reference to the power of the individual in dilemma situations, which will be discussed in section IV.

So the two types of motivation that discourse ethics assumes can be reconstructed as two perspectives on the same phenomena, both of which are important in ethics. And it depends on the problem to be solved which perspective should be taken on in a particular case: In cases where the question is how to set the proper incentives or how to design institutions, the discourse perspective is probably less fruitful. If the question is how to act in a specific situation under given conditions and norms, then discourse ethics can have its merits. But both, incentive compatibility and ability to reach a consensus, must be achieved.

3. Weak Normativity: Corporate Citizenship

While virtue ethics and discourse ethics both try to justify a rather 'strong' concept of normativity, the approach of corporate citizenship, which could be classified as broadly pragmatist[16], weakens the status of normativity considerably. Two major proponents, A. Crane and D. Matten, believe that students of business ethics cannot be convinced of a manager's social responsibility, or of the company's role as a corporate citizen by teaching them a theoretically integrated, i.e. a 'strong' normative ethics[17]. Some of the main concerns of Crane's and Matten's concept of Corporate Citizenship have a lot in common with the way order ethics looks at business:

First, Crane and Matten point to the fact that the industry has not been happy with other concepts like Corporate Social Responsibility, or business ethics in general, and has therefore rather welcomed the less 'reproachful' concept of Corporate Citizenship. This almost exactly mirrors the direction that business ethics discussion has taken in Germany: Many managers and CEOs have been taken aback by at least some parts of business ethics, by their semantics, by the way they have been accusing corporations of many things (like having only profits in mind), or by demanding that corporations include other factors in their system of goals. One of the objectives that

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16 For a recent overview on pragmatism, cf. SHOOK/MARGOLIS (2006).

17 A "'stimmig aus einer Perspektive' integrierte 'normative Ethik'", cf. CRANE/MATTEN (2005), p. 51.

order ethics is aiming at is to convince the industry and their executives that they are 'in the same boat', and that ethics can be a useful resource for them – if it employs adequate theory and an adequate semantics.

Second, the extended view of Corporate Citizenship pursued by Crane and Matten (2003, pp. 63f.) explicitly acknowledges an extended political role of corporations in society. This is also very near to the order ethics conception, in which corporations are assigned (among others) a responsibility for the order framework, as they have greater influence on politics and the public than individuals (cf. section V). And it is in their own interest to invest in a better framework of rules.

From a theoretical viewpoint, however, the Corporate Citizenship approach poses some theoretical and conceptual problems not to be underestimated. I will highlight three:

1) Crane and Matten (2003) explicitly commit themselves to a "pluralism", to a position that takes its main methodological and normative principles from many different sources. An overarching theoretical framework is explicitly not the aim of this approach. Rather, Crane and Matten state that there is a consensus on basic principles among ethicists anyway.

But there are severe disagreement in the positions of, e.g., Habermasian discourse ethics, utilitarianism and contractarian ethics. And moreover, some important theoretical elements get overlooked when adopting a 'pluralistic' perspective, elements that only get into view within an integrating theoretical framework. For example, what is missing here is a basic distinction that is important for business ethics: the distinction between rules and actions. If one does not distinguish clearly between rules and actions, the danger lies in applying normative criteria to the wrong phenomenon and thus being unable to solve crucial ethical dilemmas (cf. further in section IV.1.a).

2) Crane and Matten define business ethics as the "study of business situations, activities, and decisions where issues of right and wrong are addressed" (Crane/Matten 2003, p. 8). In particular, business ethics is said to be about the 'grey' area: It "can be said to begin where the law ends" (Crane/Matten 2003, p. 9). But this seems to be too narrow, in two respects: First, many laws and institutions themselves already incorporate ethical lessons. For example, antitrust laws serve an important ethical purpose, i.e., to prevent the rise of monopolies and oligopolies, which leave every individual worse off – even the monopolist or the oligopolists themselves, in the long run, and in particular as consumers.

Second, what is missing here is the discussion of more general, overarching questions that concern the ethical dimension of the entire economy: Can traditional ethical ideals like solidarity or charity be implemented in modern market economies – and if so, how? Or is the market a completely "morally

free zone" (Gauthier 1986, p. 13) that has nothing to do with morality at all? These are vital questions asked by many citizens. And to whom should they be addressed if not to the business ethicist?

3) There is another general impression that arises when reading the book by Crane and Matten: A (future) manager could despair[18] when learning about all these possible ethical dilemmas and 'catastrophes' that could arise in their companies and which must all be taken seriously. However, there can also be situations in which it can be possible to reject with good reasons claims that are presented as ethical. In particular, claims that are not universalizable, that serve only a minority and that are not in the mutual interest of all parties involved, can well be rejected – if the managers of the company in question are trained in ethics and manage to communicate their actions. And theory is needed to find such a justification.

Matten and Crane are right in that many conceptions of business ethics are overly loaded with normative claims and normative theory.[19] But 'theory' can mean other things than just 'strong' normative theory in the sense of Habermasian discourse ethics or virtue ethics. The conception of an order ethics draws its theoretical foundations mainly from *economic* theory, though without forgetting about its ethical connections. Rather, the purpose is to make explicit the ethical lessons that lie within economic theories, and in this way, to clearly connect ethics to the empirical world.[20] This approach will be presented in the following section.

IV. Contractarian Normativity out of Economics

The idea of justifying normative statements in a contractarian approach goes back to origins in Plato's Crito, but has been elaborated mainly in the classic contractarian tradition of Hobbes (1651/1991), Hume (1739-40/1978) and Spinoza (1670-77/1965).[21] The contractarian version presented here, however, has been combined with theoretical elements from economics. First, subsection 1 discusses the general role of theory and two particularly important theoretical elements. Subsection 2 will deal with the contribution

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18 A particularly large number of examples can be found in the chapter on consumer ethics (CRANE/MATTEN 2003, pp. 265ff.).

19 Cf., as an example, ULRICH (2002).

20 For an – at least distantly – related conception, cf. HODGSON (2001).

21 For the classic contractarian tradition, cf. GOUGH (1967).

of the theory of incomplete contracts, from which consequences can be drawn for the responsibilities of corporations (section V).

1. Theory in Order Ethics

Unlike many other conceptions of ethics, order ethics does not start with an aim to achieve, but rather with an account of what the social world – in which ethical norms have to be implemented – is like (cf. Homann/Luetge 2005, Luetge 2005). The modern social world is different from the pre-modern one. Pre-modern societies played zero-sum games in which people could only gain significantly at the expense of others. And the types of ethics still predominant today have been developed within these pre-modern societies.

Modern societies, by contrast, can be characterized – by economists and other social theorists alike – as societies with continuous growth. This growth has only been made possible by the modern competitive market economy which enables everyone to pursue his own interests within a carefully devised institutional system. In this system, positive sum games are played, which makes it in principle possible to improve the position of every individual at the same time. Most kinds of ethics, however, resulting from the conditions of pre-modern societies, ignore the possibility of win-win-situations and instead require people to be moderate, to share, to sacrifice, as this would have been functional in zero-sum games. These conceptions distinguish – in more or less strict ways – between self-interest and altruistic motivation. Self-interest, more often than not, is ultimately seen as something evil.

Such an ethics cannot be functional in modern societies, but this becomes clear, e.g., in business ethics, only when regarding norms from a theoretical viewpoint. Neither intuitive, or everyday, or pragmatic deliberation can lead us to recognize this systematic 'disfunctionality'. Ethical concepts lag behind. Within zero-sum games, it was necessary to call for temperance, for moderate profits, or for a condemnation of lending money at interest. Within positive-sum games, however, the morally desired result of a social process cannot be brought about by changes in motivation, by switching from 'egoistic' to 'altruistic' motivation. Instead, in the modern world, the individual pursuit of self-interest can promote traditional moral ideals in a much more efficient way: These ideals are implemented in the institutional framework of a society. They govern the market, and via competition on the market, the position of each individual can be improved: the positive sum results. This positive sum is visible in the form of innovative products at good value for money, of jobs, of income, of taxes and so on. So within

the positive sum games of modern societies, the individual pursuit of advantages is in principle compatible with traditional ethical ideas like the solidarity of all.

a) Actions and Rules

The second theoretical element introduced by order ethics is the distinction between actions and rules, which has already been mentioned. Traditional ethics concerns actions: It calls directly for changes in behavior. This is a consequence of pre-modern conditions as reconstructed before: People in the pre-modern world were only able to control their actions, not so much however the conditions of their actions. In particular, rules like laws, constitutions, social structures, the market order, and also ethical norms have remained stable for centuries.

In modern societies, this situation has changed entirely. The rules governing people's actions have increasingly come under control. In this situation, ethics has to focus on rules. These rules itself cannot however be recognized by pragmatic or commonsense approaches to business ethics. Morality has to be incorporated in incentive-compatible rules. Direct calls for changes in behavior without changes in the rules lead only to an erosion of compliance with moral norms. Individuals that continue to behave 'morally' will be singled out, because the incentives have not been changed. More precisely, there are three problems here:

First, only changes in rules can change the situation for all participants involved at the same time. Second, only rules can be enforced by sanctions – which alone can change the incentives in a lasting way. Third, only by incorporating morality in the rules can competition be made productive, making the individuals' moves moral-free in principle. With the aid of rules, of adequate conditions of actions, competition can realize advantages for all people involved. In this way, Adam Smith's classic idea of the market promoting the interests of all can be (re-) captured: If the rules are set adequately, self-interest as the dominant motive in actions can bring about the ethically desired results.

Thus, rules open up new opportunities in actions. But there is an even more important lesson to be learnt from this theoretical perspective: Rules and actions must be prevented from getting into opposition with one another. Ethical behavior on the level of actions can only be expected if there are no counteracting incentives on the level of rules. In the classic model of the prisoners' dilemma, the prisoners cannot be expected to cooperate, because the conditions of the situation (the 'rules of the game') are such that cooperation is punished by defection on the part of the other player. In other words: In PD situations, actors are permanently faced with the possibility of

being 'exploited' by others if behaving cooperatively, and therefore they stop cooperating themselves pre-emptively.[22] This leads to a situation where rational, self-interested actors end up with a result that leaves all worse and no one better off: Morality gets crowded out.

This lesson is certainly incorporated in some pragmatic approaches to business ethics as well, at least in principle. But within order ethics, this lesson can be derived systematically, and thus made much more convincing.

Actions are governed by rules, but what about rules themselves? In the order ethics picture, rules are governed by other rules of higher order. Higher order means that there is a greater degree of consent needed to put these rules in effect or to change them – as is the case with laws and constitutional rules, for example.[23] Ultimately, the only normative criterion that is needed here is consent.[24] This criterion has been the core of social contract theory from Hobbes and Spinoza to Rawls. Other normative criteria, such as justifying norms by reference to the will of God, to the law of nature, to reason or to intuition cannot count on acceptance in the modern pluralistic world anymore.

The difference between actions and rules is also important with regard to mental models: Identifying one guilty party, a culprit, is only possible in scenarios of acting under fixed rules. But when the rules themselves come into question, all can be regarded as equal partners in looking for new or better rules.

b) Implementation and Advantages

Most ethical theories, whether consequentialist or deontological, proceed by first giving a justification for their norms and then looking for ways of putting these norms into effect. The problem here is that the social conditions for implementation, especially in modern societies, are taken into consideration

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22 This is an alternative interpretation to the popular view that in these situations, we observe a decline in morality. For a recent example, cf. KARSTEDT/FARRALL (2006). What Karstedt and Farrall interpret as a current decline of morality in Germany, can rather be seen as a pre-emptive counter-defection by large parts of the population aiming to *protect* themselves.

23 Cf. BUCHANAN (1975) and BRENNAN/BUCHANAN (1985). For the ethical dimension of Buchanan's work, see LUETGE (2006).

24 Herein lies an important difference between a contractarian and a rule-utilitarian approach: The contractarian rejects the idea of adopting a rule *because* it maximizes some collective utility. Instead, in a contractarian setting, there has to be some level in the hierarchy of rules where every single individual must *agree* to a rule for it to be adopted. Thus, suppressing minorities becomes less probable than in a rule-utilitarian setting.

only after a justification has already been established. In this way, there is no room for the idea that a norm may not be justifiable because there is no way to implement it: Ought implies can. Consequently, order ethics changes the theoretical precedence: Discuss problems of implementation already in the process of justification.

It must therefore be clear that moral norms which are to be justified cannot require people to abstain from pursuing their own advantage. People abstain from taking 'immoral' advantages only if adherence to ethical norms yields greater benefits over the planned sequence of actions than defection in the single case. Thus 'abstaining' is not abstaining in the long run, it is rather an investment in expectations of long-term benefits. By adhering to ethical norms, a person becomes a reliable partner for interactions. The norms do indeed constrain her actions, but they simultaneously expand her options in interactions. And people consent to rules – in the sense outlined in the previous section – only if these rules hold greater advantages for them, at least in the long run.

In general, ethics cannot require people to abandon their individual calculation of advantages. However, it may suggest improving one's calculation, by calculating in the long run rather than in the short run, and by taking into account the interests of their fellows, as one depends on their acceptance for reaching an optimal level of well-being, especially in a globalized world full of interdependence. (And this global interdependence has become especially visible since the events following the 11th September, 2001.)

The problem of implementation can now be placed at the beginning of a conception of order ethics, justified with reference to the conditions of modern societies sketched above. Under the conditions of pre-modern societies, an ethics of temperance had evolved that posed simultaneously the problems of implementation and justification. The implementation of well-justified norms or standards could then be regarded as unproblematic, because the social structures allowed for a direct face-to-face enforcement of norms. Pre-modern societies not only favored an ethics of temperance, they also had the instrument of face-to-face-sanctions within their smaller and non-anonymous communities.[25] This instrument is no longer functional in modern anonymous societies (cf. Luhmann 1989), and so the problem of implementation has to faced right at the start of a modern ethical conception. Simultaneously, an order ethics relies on the implementation of sanctions

[25] See MEIER (1998) for how this instrument was used in ancient Athens. Meier clearly shows that Athens was not a democratic state in the modern sense, mainly as public and political participation was required *and enforced* in quite other ways than today.

for enforcing incentive-compatible rules. In modern societies, rules and institutions, to a large extent, must fulfil the tasks that were, in pre-modern times, fulfilled by moral norms, which in turn were sanctioned by face-to-face sanctions. Norm implementation in modern societies thus works by setting adequate incentives in order to prevent the erosion of moral norms, which would happen if 'moral' actors were systematically threatened with exploitation by other, less 'moral' actors.

Concerning mental models, this means that neither is altruism equal to moral behavior nor egoism to immoral behavior. The demarcation line can be found rather between unilaterally and mutually beneficial action: In order to act morally, an actor should be pursuing her advantage in a way that benefits others as well.

2. Order Ethics and Incomplete Contracts

At this point, it could be objected that order ethics neglects situations where no viable framework exists. And it could be argued further that these situations increase greatly in number under conditions of globalization.

According to M. Friedman's famous dictum, "the social responsibility of business is to increase its profits" (Friedman 1970), corporations would have – at most – responsibilities for the order framework of the market. However, corporations are in fact doing much more, like providing social welfare, engaging in environmental protection, or in cultural and scientific affairs.

There are several possible reactions to this: A stakeholder approach would explain these observations by insisting that a corporation has to take into consideration not only shareholders, but other groups as well. If one takes the order ethics perspective seriously, however, then it is difficult to justify why the claims of stakeholders, which are already incorporated in the formal rules – as taxes, salaries, interest rates, environmental and other restrictions – should be incorporated a second time in the actions of corporations. This is not to say that corporations should not account for stakeholder interests at all, but rather that the justification given is not strong enough.

It is equally problematic to argue, like a discourse-theoretical approach might do, that competition is not always as sharp, and that there is room for corporations to act morally within the market.[26] The general problem of morality in the market (cf. section IV) is not taken seriously in this picture:

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[26] Cf., for example, STEINMANN/LÖHR (1996).

Competitors would use this 'room' for investing and for developing new and better products. The 'moral' corporation would thus again be left behind.

The virtue ethics approach is faced with the same argument: Granted that virtues have their place in the market and that people would like to act in accordance with these virtues. But how can the 'virtuous' act be justified if this person is eventually left behind in competition?

A more suitable justification for a greater political role of corporations can be developed along the lines outlined in the rest of this section. It is consistent with the order ethics conception, especially in view of two points: Ethical norms must (1) be implemented in an incentive-compatible way and (2) be built on (expected) advantages and benefits.

Order ethics proceeds by extending the concept of 'order' to other, less formal orders. It therefore introduces another theoretical element, again from economics: the theory of incomplete contracts.

In reality, contracts are most often not completely determined by rules. They are not completely fixed in terms of quality, date, or content, for any possible circumstances in the future, and despite any difficulties in enforcing these contracts. In more detail, it can be said that incomplete contracts are contracts in which one or several of the following conditions apply:[27]

(1) The obligations of each party resulting from the contract are not specified exactly, in view of changing conditions such as flexible prices of raw goods.

(2) It is difficult and/or expensive to determine whether the contracts have been fulfilled. External consultants have to be employed.

(3) The enforcement of the contract is very difficult, very expensive, or even downright impossible, due to insufficient systems of law in a number of countries.

The globalized world is indeed full of such incomplete contracts, like work contracts, long-run cooperation contracts, insurance contracts, and many others. In dealing with these contracts, there is a major problem of interdependence of the partners' actions: A partner that is honest and fulfils her part of the contract cannot automatically be sure that the other partner does the same. The other one might point to gaps within the contract, may propose differing interpretations, or it may be too expensive to enforce a claim.

A rational actor faced with these kinds of contracts would rather not sign them, especially when being risk-averse. However, if these contracts promised high benefits, the actor could try to rationally deal with the incompleteness.

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[27] Cf. HART (1987) and HART/HOLMSTRÖM (1987).

Making incomplete contracts complete is no way to go: Not only is it impossible to specify all scenarios in advance, but this would also greatly reduce the flexibility which is the main advantage of the incompleteness. Incomplete contracts can be made quite productive, as the parties involved can adapt their agreements to different frameworks more easily. In order to exploit the benefits of incomplete contracts, however, trust, fairness, integrity, and good will are needed, in short: ethics. If contracts are becoming increasingly incomplete, both an ethics for the interior relations of the company (workers and management) as well as an ethics for the exterior relations to customers, banks, suppliers, and the public, become a necessity. It is rational for a company to invest in these ethical categories, as it contributes to the company's success in a way that directly affects shareholders.

So if rules are incomplete or if there are no rules for a specific situation, economic theory suggests relying on substitutes: Corporations, as partners in interactions, have the opportunity to commit themselves to certain policies, to mechanisms of trust and fairness, for example. This commitment has to be made credible through organizational measures and must be signalled to others. In this way, actors create by themselves the very reliability that would normally be expected from formal rules. They create a reputation, which especially under conditions of globalization is a necessary prerequisite for success in the long run. This commitment must be signalled, and thus becomes an asset for the company.

So from a theoretical perspective, order ethics can now provide an integrative view on both situations, those with well-established and those with incomplete rules. In both cases, incentives and sanctions are key issues. In the first case, incentives are set by formal rules, while in the second case, this role is taken up by informal rules in the shape of 'soft' factors like ethics and reputation. The current situation where corporations are taking on a greater political role can be seen as a tendency towards a greater role of incomplete contracts.

V. Responsibilities of Corporations in the Globalized World

In a world where incomplete contracts play a vital role, corporations have responsibilities that can be differentiated into three dimensions:[28]

[28] I am following an idea by K. HOMANN here.

1) Corporations are responsible for their actions and the immediate consequences resulting from them. This can be defined as their action responsibility. Corporations must comply with laws, and they are responsible for entities such as their products, their marketing methods, their employment policy, their corporate culture, and so on. Also, philanthropic activities fall into this category.

In an extended sense, action responsibility also encompasses activities that go beyond the traditional, rather passive meaning. Here, investing in educational programs, fighting directly against corruption and discrimination or founding trusts can be located. These are important activities in the globalized world. However, they have mostly (a) local or regional character, and they are (b) mostly uncoordinated, because corporations hesitate to cooperate in this field with others who are normally their competitors. Thus, the structural problems of the world like hunger, poverty, terrorism and destruction of the environment are not dealt with systematically.

2) In a second step, corporations are responsible for the social and political order framework. In the national setting, this framework is easily identified. But in the global setting, it does not (yet) exist, and there is not much reason to suggest that it will come into existence in the near future. Thus, there is room for the order responsibility of corporations, which can have much greater impact than their action responsibility. The main task is to help in establishing basic human rights, a trustworthy judicial system, property rights and so on. This in turn improves the conditions for future, long-term company benefits. However, the main criticism here is that corporations that take their order responsibility seriously are simply engaging in lobbyism.

3) This leads directly to the third and most important, yet often overlooked element – which may also create a bridge to the discourse approach. Mental models that people have greatly influence their actions (cf. section III). They can block necessary reforms and create vehement opposition to globalization. Many people even regard it as their moral duty to oppose 'neoliberalism' and the market.

These people can however not be convinced by 'economic' benefits, narrowly understood, by improving factors like GNP and others, but only by engaging in a discourse about the social and economic structures and factors that shape the world. From the perspective of order ethics, e.g., it can be shown that many traditional moral ideals are better served by intensifying, not by slowing down competition within an adequate institutional framework. But this must be convincingly shown, by way of argumentation. What is called for is the discourse responsibility of corporations. Corporations must engage in (public) discourse about the social and political order of the

global society. People who cannot reconcile this social and political order with their own normative self-image, with their moral or ethical views, will stand in the way of many mutually fruitful and productive cooperations.

And in several cases, these people are indeed reinforced in their opinions by bad arguments in favor of the market: For example, if the market is justified by calling it an expression of human freedom – the classic M. Friedman (1962) view –, this creates immediate opposition by many people who daily experience otherwise. As the figures cited in section II show, people in Germany (taken just as one example) see a growing danger in globalization and in the activities of corporations. Many people who are out of work, and many more who are afraid of losing their jobs, experience mainly pressure from competition, not freedom. It is therefore vital to stress that freedom and pressure always go hand in hand in the market economy: Pressure on suppliers creates freedom of choice for consumers.

Another popular argument, used, e.g., in virtue ethics, is that the market is not as bad as some think – because the market also provides a place for virtues like reliability or loyalty. This in turn reinforces the view that, as a general rule, the market is bad and immoral indeed. Virtues are only there to remedy the general immorality of the market. Moreover, reliability and loyalty can also be found in organized crime.[29]

Finally, the last example is again a German one. The German system of the "Social Market Economy" is quite often justified – or equally criticized by others – by stating that the role of the 'social' is to correct the 'anti-social' consequences of the market. In this picture, the market in itself is regarded as morally dubious, to say the least. A better view, and one that the discourse responsibility of corporations should find it worthwhile to take into consideration, would be that the word 'social' can only mean to create a better, more productive and thus ethically more desirable market. This argument would proceed by showing that people can take more risks as market competitors if they know that the social system will support them. If the concept of a social market economy is to make sense at all in the globalized world, then this strategy of argumentation should be followed.

Of course, corporations cannot fulfil their discourse responsibility on their own. Here, business ethics can be of help in developing, shaping and promoting ethical ideas about business.

However, two major criticisms are raised regularly against the political activities of corporations:

1) The first one is that corporations are 'only' maximizing their profits and are therefore 'only' following their own interests. In the political

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[29] Cf. GAMBETTA (1993).

sphere, this is supposed to amount 'only' to lobbyism. The status of profit maximization has been discussed in sections IV and V,[30] and it has been made clear that this cannot be used as an argument against corporations. But what about the charge of lobbyism? Certainly, no corporation cannot control the global social order on their own. They have to justify their actions in public, and that is not the only means of controlling companies. This leads to the second criticism:

2) It is often alleged that corporations lack democratic legitimation, as CEOs and managers are not elected 'democratically'. This argument presupposes that democracy can be reduced to elections and to the vote of the majority – in a Lockean sense.[31] However, following authors like K. Popper,[32] the main function of democracy is not majority vote, but control. In a democracy, control is exercised through many mechanisms, of which voting is only one. Others include competition on markets, public discourse, but also control of politics through corporations: Bad politics must reckon with the possibility of being 'punished' on capital markets.[33] These control mechanisms exist likewise in a global setting, with the addition of NGOs – who are of course no better 'democratically' elected (in the traditional sense) than corporations. The democratic legitimation of corporations depends on these control mechanisms being in place. By making their activities more transparent, corporations can enhance their acceptance and equally their democratic legitimation. This is in their own interest – and not simply a moral duty for a 'good corporate citizen'.

VI. Conclusion

This article started with remarks about the order of the globalized world, which is shaped by corporations to a large extent. However, the political engagement of corporations is regarded rather sceptically by many people. These people have certain mental models that can impede the development of mutually beneficial, thus ethically and economically desired, cooperations.

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30 Cf. also HOOKER (1998).

31 Cf. DANIELSON (1991).

32 Popper famously wrote that the main advantage of democracy is to be able to get rid of its governments "without bloodshed – *for example*, by way of general elections" (POPPER, 1945/1966, vol. 1, p. 124, my italics). Note the wording 'for example'.

33 For a recent account of ethics on financial markets, cf. KOSLOWSKI (2007).

Such mental models can only be overcome by developing an adequate normative theory of economics and ethics in the modern world. Virtue ethics and discourse ethics, both of which rely on a rather strong concept of normativity, have deficits with regard to their understanding of modern societies. The approach of corporate citizenship, by contrast, weakens the status of normative concepts, but at the price of having too little theory to take on fundamental ethical questions of market and competition. Order ethics is an alternative view which draws some of its main theoretical resources from economics. This conception points especially to the distinction between actions and rules and to the role of implementation in ethics. Moreover, the theory of incomplete contracts provides the framework for the responsibilities of corporations in the globalized world: Besides action responsibility and order responsibility, corporations can be assigned a discourse responsibility, which requires caring for the ethical arguments used in public discourse. Several examples have been given for how bad arguments can be detrimental to an adequate understanding of business and ethics in the globalized world.

Paying attention to these arguments should make the role of corporations in globalization be seen as a *chance*, and this chance must be communicated to a broader public. Neither the proponents of a world state nor the advocates of a federation of independent states have incorporated this chance into their conceptions so far. As actors on the global stage, corporations are only slowly becoming visible for ethical theory.

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Part D

Philosophy and Brand Management

Chapter 7

The Ethical Consequences of Brand Management: A System-theoretical Approach

Kai-Uwe Hellmann

I. The By-product of Branding

From the microeconomic point of view all the actions for the purpose of the creation of the brand and brand loyalty are the most significant investments of marketing if regarded purely strategically. In order to make a certain product attractive and saleable the whole product communication, which includes the product, its packaging, advertising and further promotional actions, is characterised by and reinforced with certain special features, all of which strive to comply with the AIDA principle: attention, interest, desire and action. Thereby manipulation, i.e. the intent to influence the consumer positively in the sense of the AIDA principle, is clearly the intention of marketing. To put it bluntly, marketing thus follows a very simplified form of causation, namely the successful marketing of the product as cause and the hoped for sales of the product as effect, whereupon the brand serves as medium and form at the same time. Hence one can say that marketing is a kind of applied social technique, a technique being regarded here as an efficient simplification of the process of communication that unquestionably achieves certain effects because it needs neither reflexion nor decision for that.

If one now stops considering what a brand means from the point of view of marketing the brand appears to be an instrument, a "tool" that only fulfils purely technical requirements and therefore has nothing to do with ethics.

P. Koslowski (ed.), *Elements of a Philosophy of Management and Organization*, Studies in Economic Ethics and Philosophy, DOI 10.1007/978-3-642-11140-2_7,

The reason is that treating the consumers respectfully, i.e. dealing with the consumers morally legitimately, is not the aim of product marketing by means of the brand. What is important here is sheer selling without considering the people, without taking into account the responsibilities of fraternity or reverence, or regarding primitive personal relationships borne by communities of people, as Max Weber (1978) declares the specifity of modern markets. Consequently brands and ethics appear to belong to two completely separate spheres. Does that mean there are no ethics of the market? Is this a paradox that only disorients us?

One only starts thinking about the solution of this paradox and consequently the moral dimension of product marketing by means of a brand if one considers what emerges quasi as a "by-product", and a thoroughly desirable by-product at that, in the course of product communication between companies and customers, i.e. the establishment of social relationships in the sense of the conduct of the many that is focussed on one another and therefore oriented, to quote Weber again (Blumtritt/Kollock 1988). This is so since the aim of any creation of a brand is brand loyalty, i.e. loyalty of the customer towards this brand (Blackston 1992; Fournier 1997; McAlexander et al. 2003; Hellmann 2005a; Patterson/O'Malley 2006). However, loyalty also means starting a relationship, gathering faith and trusting while one entrusts oneself to product communication and purchases the product that is being advertised – and it is at this very moment that ethics come into play because when companies attempt to achieve brand loyalty through the creation of a brand they undertake the responsibility towards those, who they try to promote their products to (Hilton 2003; Arvidsson 2005). Thus, because brands are a perfect means of marketing, generating the feeling of trust in the products, it also applies to the ethics of the brands; you only have to pay attention to the by-product of product communication, i.e. the (un)intended establishment of social relationships between companies and customers, since those are ethical per se.[1]

The moral dimension of product marketing by means of a brand becomes critical to the success of the company especially when one regards the mostly latent networking of brand loyal customers in the form of "brand communities" because their extraordinarily intensive loyalty towards a certain brand, be it Beetle, Harley-Davidson or Macintosh, very often leads to the fact that this moral dimension, be it praise or blame, is presented to the companies, in any case, in the sense of moral communication, which deals with the attribution or defrayal of esteem and recognition of those companies on the

[1] If social relationships endure they become per se moralistic because they are connected with concessions and promises between the members of these relationships which are binding moralistic, see FLETCHER (1993); BÖHLER (2001).

part of their customers. To some extent brand communities act as a litmus test here, whose aim is to reflect the ethics of a brand. For this reason the following text is an attempt to find out how far companies are attributed social responsibility through marketing by means of brands. The first step is demonstrating how social relationships between companies and customers are formed through the transition from the product to the brand. The next step is the presentation of the basic assumptions of the sociology of brand communities because, as implied already, in such brand communities the trust capital of certain brands can be studied especially well because of the unusually strong links between those communities and the brands. Finally, it will be demonstrated that and to what extent companies undertake social responsibility when they avail themselves of brands during product marketing.

II. How to Differentiate Between the Product and the Brand

As a matter of principle, one has always to differentiate between the product and the brand. While anything can become a product as soon as it appears on the market, the product only becomes a brand when the customers have developed a trustful relationship to it. According to it a certain added value of the product that appears during its lifetime is associated with the brand.[2]

If regarded system-theoretically, the product refers to a service that promises to contribute to the solution of an everyday problem, like clothing, nutrition, recreation. On the opposite, a brand offers a service that deals with purchasing this very product in the first place because nobody knows the quality of the product before using it. For this reason there is a special risk during the purchase of any product which is typical for mass markets where the exchange partners do not know each other. Slightly different said, the function of the product refers to a problem that has nothing to do with the situation of the purchase of the product because it lies beyond this situation. However, it is exactly this situation of the purchase of this product that the function of the brand refers to. Mostly it is occupied with the solution of a central problem within the relationship between producers, dealers and consumers, i.e. the risk management through the establishment of trust. The problem of the reference of the product is thus outside the

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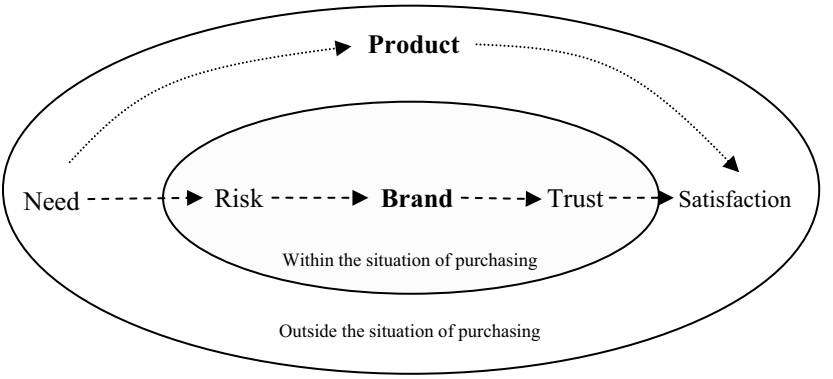
[2] Talking here from the lifetime of a product is recurring to the idea of "product biography" of APPADURAI (1986).

situation of the purchase of the product (need-product-satisfaction), while the problem of the reference of the brand can be found inside the situation of the purchase of the product (risk-brand-trust), as the following illustration of the purchasing process shows:



System-theoretically speaking, products symbolise the external reference of the situation of the purchase of the product because they refer to the problems around the system while brands indicate the self-reference of this situation because they concentrate on the problems in the system (in general Luhmann 1979, 1995). In this sense both the product and the brand represent a service, the difference being that the service of the brand refers to the situation of the purchase of this product as a service in equal measure. With regards to the service of the product the brand thus offers a meta service and can therefore be described as a meta product (Linn 1987).

Hence, there are two kinds of products: on the one hand, the original product and, on the other hand, the brand, whereby one can refer to the brand as a product because due to the communication between the producer and the consumer with regards to a certain product a common relationship and history between the producer, their product and the consumer develop, which is a self-contained phenomenon as far as the product itself is concerned. The phenomenon that emerges in this form represents reality sui generis, so to say, and at best produces a non-changeable loyalty that one normally calls "brand loyalty".[3] The precondition of that is certainly the fact that not only the quality of product communication but also the quality of the product itself is of as high a value as possible and that means, the respective policy of product information should appear integrated, i.e.

[3] See FLETCHER (1993) concerning loyalty in general.

consistent and free from contradictions to a large extent, because consumers develop trust towards the product only when the communication about a certain product in an integrated manner is a success, and it is only then that we have to do with a brand, to put it sociologically (Schultz et al. 1994; Hellmann 2005b).

Thus, brands are distinguished by the quality of the communicative relationship between producers and consumers with regards to a certain product. They establish trust and generate the loyalty of the consumers. How can one imagine the process of the development of trust and loyalty of the consumers precisely?

Even though almost every product communication is a multimedia process (signs, symbols, colours, tunes, architecture, etc.) we have to assume, for the sake of convenience, that during such product communication we simply deal with production and reception of narrations (Mathews/Wacker 2007; Hellmann 2007). Such product communication always consists of many strands of the story depending on what about and how they communicate and who takes part in the communication. Those strands of the story slowly become independent, which is inevitable due to their seriality. Individual stories thus become more autonomous, so to say, because the longer a story is told the more it disengages from the chance of its emergence and develops its own life. During this process a story of stories, in a way, an internal memory of the story emerges that recurs not only from different points of view by all the "stakeholders" more and more often in the course of time but also due to the tendency to keep the story as consistent, integrated and linked to the next one as possible in the course of each further episode. Through this process of the successive, episodic emergence of the story of stories that is told about a certain, eventually about any nearly insignificant product, this memory changes slowly but gradually into a highly important brand for the customers that take part in it more or less consciously because in the course of time a surprisingly faithful relationship to this product and its stories develops, not much different from the situation when we develop social relationships, even friendships with certain people (Fournier 1998; Deighton 2005; Hellmann 2005a). What is special about a brand is thus the nature of its relationships, its trustworthiness, its trust capital that cannot be justified from the economic point of view but is of paramount importance for many products.

III. Preliminary Work on the Sociology of a Brand Community

The moral dimension of product marketing by means of a brand can find its empirically most apparent expression if one deals with brand communities. The starting point of this cutting-edge field of research was an article with the simple title "Brand Community" published in 2001 in the *Journal of Consumer Research*, followed by an article in the *Journal of Marketing* in 2002 that promised to address the practical task of "Building Brand Community" (Muniz/O'Guinn 2001; McAlexander et al. 2002) there and then.[4] The background of the debate that has had considerable response since then is the idea that such brand communities are of crucial importance for brand loyalty of the consumers, which is why it is important to find out more about it in order to generate more brand loyal consumers, who, from the microeconomic perspective, offer greater benefits for companies than other target groups.

> The thing so long called 'brand loyalty' is more and more thought to be informed by social relationships and communal sensibilities and forces – and no just by consumer sociologists but by brand managers as well. (O'Guinn/Muniz 2005, p. 269)

Now, what is a brand community? Empirically, they are Customer-to-Customer-Communities, i.e. more or less elaborately cultivated relationship networks between those who make intensive use of special brand products, e.g. Apple, AOL, BMW, eBay, Google, Harley-Davidson, Jeep, Beetle, Maerklin, Porsche, Red Bull, Saab, Saturn, Tupperware, Vesper, Yahoo! or even TV series, such as "Star Trek". Muniz/O'Guinn (2001, p. 412) defined "brand community" as follows: "A brand community is a specialized, non-geographically bound community, based on a structured set of social

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[4] The prehistory of this debate starts 1995 with the first study "Subcultures of Consumption" of SCHOUTEN/MCALEXANDER who published the results of their longitudinal "Ethnography of the New Bikers", especially the *Harley-Davidson*-community concerning. Moreover SCHOUTEN/MCALEXANDER (1995, p. 43) defined "a subculture of consumption as a distinctive subgroup of society that self-selects in the basis of a shared commitment to a particular product class, brand, or consumption activity." One year later there was a summary of a "Special Session" about "Communities of Consumption: A Central Metaphor for Diverse Research" in the congress edition of the *American Consumer Research* where MUNIZ/O'GUINN (1996) presented their research project "Brand Community and the Sociology of Brands" the first time.

relationships among admirers of a brand. It is specialized because at its center is a branded good or service. Like other communities, it is marked by a shared consciousness, rituals and traditions and a sense of moral responsibility. Each of these qualities is, however, situated within a commercial and mass-mediated ethos, and has its own particular expression. Brand communities are participants in the brand's larger social construction and play a vital role in the brand's ultimate legacy."

According to this definition, brand communities satisfy many criteria, Muniz and O'Guinn have found three most distinctive features: (1) collective identity, (2) rituals, mythologies and traditions and (3) group solidarity of brand communities.

(1) Brand communities are characterised by their own collective consciousness that expresses itself in a pronounced sense of belonging together. Here Muniz and O'Guinn speak about the "consciousness of kind" that fully complies with the actual situation. The collective identity is connected with clear delimitation of non-members, i.e. the establishment of inside/outside differentiation (Us/Them). This identity by differentiation is enhanced even more when at the outside individual competing brands have their own brand communities, as in Saab versus Volvo, adidas versus Nike or Apple versus Microsoft (Muniz/O'Guinn 2001; Atkin 2004).

> Just as any other form of community, members of brand communities also note a critical demarcation between users of their brand and users of other brands: 'We are different from them.' This phenomenon is observed in brand communities in which the very defining nature of the community is its opposition to another brand and its community. (O'Guinn/Muniz 2005, p. 260)

Muniz and O'Guinn describe such behaviour as "oppositional brand loyalty". – Parallel to this form of exterior differentiation, as a rule, brand communities also tend to demonstrate interior differentiation between the centre and the periphery that Muniz and O'Guinn call "legitimacy". Thus, each brand community consists of a hard core of faithful "brand believers", who adjust their whole lifestyles to the brand community, while on the margin of such a group one can often find free riders and opportunists only dedicating a very small part of their personal identity to the direct identification with the brand community (Hellmann/Kenning 2007).

(2) As a rule, brand communities have a great number of various rituals, traditions and mythologies depending on the brand. Here it is important to differentiate between the behavioural level, where one deals with certain recurring ways of behaviour, greeting formulae, regular meet-ups, dress code and so on, and the discourse level, where not only the common maintenance

of the story (stories) of the brand and the community, which is alternatively retold and passed on ("Celebrating the History of the Brand") is significant, but also the common propagation of the events and stories that are directly related to the respective brand and constitute and strengthen the feeling of solidarity ("Sharing Brand Stories").

> Communities educate their members (particularly the young) in community history. Communities, whether traditional or brand, rely on a known-in-common history to keep the community alive, vital, and centred. Thus, user-created webpages devoted to these brands are replete with historical narratives. The textual nature of the Web provides an excellent forum in which members share their knowledge of the brand's origins, often replete with illustrations and photographs. (O'Guinn/Muniz 2005, p. 257)

"Social acting" and "Story telling" are closely connected and mutually reinforce each other (Brunsson 1989).

(3) Finally, brand communities have something that Muniz and O'Guinn describe as "moral responsibility". This already begins with the admittance of new members that are introduced and integrated accordingly and goes on with the supervision of staunch members ("Integrating and Retaining Members"). It is also worth mentioning that the members have a non-demanded solidarity with each other, for instance, in the case of problems in operation, break downs or other difficulties, where expert knowledge is exchanged, repairs are carried out on site and other help is offered without payment ("Assisting in the Use of the Brand").

> A particularly powerful sense of responsibility exists in the brand community centered on the Apple Newton, a product that Apple discontinued in 1998. The Apple Newton brand community innovates the product and software, provides parts sources, technical support, and advertises the brand to others. Here, the sense of responsibility is quite strong as the community is the only source for support. (O'Guinn/Muniz 2005, p. 259)

If the analyses that are available in the meantime are regarded in detail, further interesting features emerge.[5] Thus, brand communities move in interaction of dispersal and getting together: the contact between the members

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[5] See ALGESHEIMER (2004); ALGESHEIMER ET AL. (2005); O'GUINN/MUNIZ (2005); MUNIZ/SCHAU (2005); ANDERSEN (2005); QUINN/DEVASAGAYAM (2005); VON LOEWENFELD/HERRMANN (2005); FOURNIER ET AL. (2005); HELLMANN (2005c, 2005d, 2005e); BAGOZZI/DHOLAKIA (2006); VON LOEWENFELD (2006); VON LOEWENFELD ET AL. (2006); COVA ET AL. (2007).

happens through the Internet most of the time; every now and then, however, this regular state of latency is transferred into the state of general visibility, namely in the framework of the so-called "brand feasts", even if it happens temporarily. The membership is always voluntary, one can join and leave any time as long as the eligibility requirements are fulfilled, which is why brand communities have a tendency to have rather a limited lifespan. They are strictly theme-centred and mostly emerge in the areas of leisure and consumption. Brand communities are often commercially created and are kept alive with the help of the respective companies to some degree. At the same time, the majority of brand communities insist on their independence from the companies and even interfere vehemently in the policies of those companies. Eventually, more and more often the membership of a certain brand community is stated through commitment. This can even go so far that the fascination by a certain brand acquires missionary zeal, with which the members strive to convince others of the fascination of this brand or even convert them.

> Responsibility also manifests via an apostolic function. Members of brand communities, generally think that new members (but only appropriate new members) should be recruited to keep the community alive. This is seen as a group moral duty. Most brand community members have engaged in this behavior at some level or another, ranging from showing off what the brand can do to more openly explicit persuasive attempts. Most love to share stories of successful conversion efforts. (O'Guinn/Muniz 2005, pp. 259f.)

In an empirical survey of German brand communities Fabian von Loewenfeld (et al. 2004, 2006) has singled out nine factors that are typical of this phenomenon and coincide substantially with what one has found out so far: the members mutually support each other in case of problems; intensive interaction between the brand and the member takes place; certain needs are met in the best way possible; the interest in the brand is more lasting; one can expect a much higher identification with the brand; the extension of commonalities between the members takes place; the members develop a strong feeling of solidarity; friendships develop and mutual exertion of influence is noticeably bigger. As far as the question of the benefits and at the same time requirements of the companies connected to them are concerned von Loewenfield specifies about four "essentials":

1. Long-lasting relationships of trust with the customers that increase the added value of the brand can develop in brand communities.

2. The formation of brand communities is not very promising without a consistent brand personality, whereby the core of the brand unites the "community".
3. It is possible to influence the success of brand communities as long as companies actively support the aims and wishes of the respective members.
4. The members of the brand community are loyal customers and recommend the brand further.

It should be pointed out one more time with regard to this numeric form of "consumption communities" that are rapidly becoming more and more diverse, as Daniel J. Boorstin (1973) kept in mind already more than 30 years ago, that their emergence and continuity are based on very close cooperation with the respective companies. At the same time, such brand communities attach great importance to their independence, as is emphasised in Cultural Studies. After all, many brand communities consider themselves to be owners of their brand and they also react accordingly in a resentful and indignant manner when the companies modify the revered brand in the way that do not please the supporters of the brand. It is this aspect, however, that provides the most impressive proof that and how far one can speak about the moral dimension of product marketing by means of a brand.

IV. Brands Link not Only Customers but Also Companies

It ought to have become obvious by now that brand communities are basically distinguished by high trust capital. Even though the status of the members of such communities does not have any distinct formality and is based on spontaneousness along with all the disadvantages connected to it, such as allowed non-commitment, high chance of breaching the norm and insufficient ability to be sanctioned, the inner life of such brand communities proves to be unusually conformist, characterised by intrinsic motivation and mostly predominantly moral, i.e. comparatively weak, forms of social control. As O'Guinn/Muniz (2005, p. 260) say it:

> We argue that the morality that manifests in brand communities is a small case 'm', morality, even a marketplace morality. Still it exists, and the marketplace is the central stage of contemporary society. Brand community members do feel a type of obligation to other members, and the collective, that has as its core a morality: a loosely codified sense of right and wrong, duty and obligation.

And this happens because the belonging and membership of such brand communities apparently represent a value in itself: being present and mutual recognition are estimated as noticeably more important than merely being a free rider. It can be legitimate to speak about the ethics of the brand insofar as one concentrates on these, still largely unexplored, associations of especially faithful brand consumers in the form of brand communities.

This is not enough, however, because not only are Customer-to-Customer relationships morally charged to a great degree, through these Business-to-Customer relationships also experience strong moralisation that yields astounding fruit, in a way, qua a feedback loop. Think, for instance, of the occasions when brand communities fight passively and actively against the actions of companies as soon as those start unacceptable alterations of the respective brand. The background of that is the claim of brand communities to be actual owners of the brand they admire.

> Brand communities assert considerable claims on ownership, claims that are only complicated by the politicization of brands. These impassioned and empowered consumer collectives assert more channel power and make claims on core competencies formerly reserved for the marketer. Brand community members increasingly regard marketers not as owners of the brands, but as temporary stewards, stewards who can be held immediately and directly accountable for transgressions, such as undesired modifications or violations of privacy. Community members recognize that their interests in the brand may surpass those of the marketer and that they may be better aware of the realities in which the product is used. (O'Guinn/Muniz 2005, p. 268)

Sadly, the examples of such occasions have not yet been documented unamenably.

For instance, the details about the actions in question became known when the Coca Cola Company tried to replace the Classic Coke through the New Coke in 1985, after the probably most extensive pretest in the history of market research had shown that about 70 per cent of customers preferred the new flavour during the blind test. However, even though the results were absolutely unambiguous, the reaction of the Classic Cola loyal consumers after this plan had become known was a disaster (Pendergast 2000). Heinz Wiezorek (1997, pp. 84f.), the then head of Coca Cola in Germany reported, "Parties were formed; we had to set up 100 new telephone lines; we received 150,000 letters every day. The President and the Chairman were threatened that the Chairman would be gunned down. We were written, 'Changing the formula of Coke is like burning the flag!"'. In other words in 1985 the long before a thoroughly prepared attempt of the Coca Cola Company to replace the drink caused a storm of protests; the consumers fought with all the means they had at

their disposal, up to illegal methods; and in the end the Pro-"Classic Coke"-Movement prevailed. What happened then is nothing but the indignation of the customers, who due to their decade-long relationship of trust with the Coca Cola Company suddenly felt outrageously betrayed and deceived by the company, even though according to the results of the pretest the company had expected an absolutely opposite reaction.

Similar occasions were reported with regards to the taking over of the Saab by General Motors, the project of complete redesigning of the Beetle by Volkswagen or crisis management at Harley-Davidson (O'Guinn/Muniz 2005, pp. 261ff.; Holt 2004, pp. 155ff.). Furthermore, one remembers the taking over of Ben & Jerry's by Nestlé that was regarded as very precarious and similar reservation was brought forward recently when the Body Shop was bought up by L'Oreal. The idea behind it is always the one that the form and quality of a certain brand - and thereby presumably also the relationship networks of companies and customers – are supposed to be altered completely through innovations, relaunches, mergers and acquisitions, which could become disadvantageous to the customers, as well as to the companies. However, it is not impossible per se that such alterations can pass off peacefully and with the approval and even support of brand loyal customers. One just has to take into account their special existential orientation and susceptibility unconditionally. The quality of the relationships has to be preserved; otherwise the brand will be damaged and that means that the course of actions of the company in question has to be as morally flawless as possible, the customers have to be treated carefully in order to satisfy what is meant here by the ethics of the brand.

V. Not Cab but Brooms

The starting thesis of this article has stated that brands are morally significant because they endow social relationships, ray out trustworthiness and link customers, these are the effects that cause certain expectations in others that cannot be ignored without consequences afterwards. Hence, each company that markets their product by means of a brand in this way inevitably undertakes responsibility for their customers that are ready to trust such a company anyway. In the style of Arthur Schopenhauer one can also say: The customers of a company are not pleased to be used as a cab that one sends back home once the destination is reached. Rather they are like the enlivened broom of Goethe's sorcerer's apprentice, which, once it is put into

action, does not stop to sweep at all. Brand communities represent this enlivened broom par excellence because they are characterised by autonomy and engagement towards the brand and the company behind it: once started they tend to become independent and suddenly the company does not face an anonymous mass of individual customers but a living body of brand loyal customers, a collective movement that raises their voice, takes a stand on the brand and can even turn against the company if their beloved brand is threatened.

This description refers not only to those brands that obviously have their own community.

> These effects extend to all brands. While not all brands have thriving brand communities, all brands have communal aspects. All brands are situated socially. User-created brand talk is common. Regardless of whether they are consumed publicly or not, all brands convey complex meanings to others, meanings that are continually negotiated between the marketer and consumers. (O'Guinn/Muniz 2005, p. 269)

Insofar one can also assume that, even when certain brands, the majority of brands even, have no viable Customer-to-Customer-relationships, moral concerns are still affected – simply because every conventional Business-to-Customer-relationship between the company and the customer lives on it as long as the product is marketed by means of a brand; the company strives for worthiness and the customer is only too eager to answer this attempt by getting involved with the offer of trust positively and buys the product in question.

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